

FILE COPY

JOINT COMMITTEE ON
GOVERNMENT AND FINANCE

Materials Distributed

November 16, 2011

October 13, 2011

1:00 - 2:00 p.m.

Joint Committee on Government and Finance

Senate

Kessler, Chair
Palumbo (absent)
Plymale (absent)
Prezioso (absent)
Unger
Facemyer
Hall

House

Thompson, Chair
Boggs
Caputo (absent)
Miley
White
Armstead
Carmichael (absent)

Speaker Thompson, Cochair, presided.

1. Lottery, General Revenue Reports and Unemployment Compensation Trust Fund

Distributed to members of the Committee were the following: Lottery Commission reports for the month ended August 31, 2011; General Revenue Fund report for the month ended September 30, 2011; and the Unemployment Compensation Trust Fund report as of August 31, 2011. Distributed with each of the reports were an analysis and a summary of the reports.

2. Workforce WV - Unemployment Compensation Trust Fund

A report of the Workforce WV - Unemployment Compensation Trust Fund was distributed.

3. PEIA, BRIM and CHIP Reports

The following BRIM reports were distributed: An unaudited balance sheet and unaudited income statement for the period ending August 31, 2011.

The following reports from CHIP were distributed: A report of enrollment for September 2011 and financial statements for period ending August 31, 2011.

The following monthly PEIA reports were distributed: Financial Statements for July 2011.

4. Real Estate Report, Department of Administration

A real estate report for September 1, 2011 through September 30, 2011, was distributed. A letter of intent to purchase property was distributed. The Department of Administration intends to purchase the property located at 7 Players Club Drive, Charleston for the negotiated price of \$2,000,000.

5. **Approval of Minutes**

Upon motion by Acting President Kessler, properly adopted, the minutes of the September 14, 2011, meeting were approved.

6. **Committee Reports/Requests:**

Equal Pay Commission - Jennelle Jones

Upon motion by Acting President Kessler, properly adopted, the travel expense reimbursement of up to \$1,000 for Dr. Mohammed Alkadry, is approved.

7. **Departments of Health and Human Resources (DHHR) Monthly Reports**

A Medicaid report for August 2011 data was distributed.

8. **Investment Management Board**

An Investment Management Board report dated August 31, 2011, was distributed.

9. **Workers' Compensation**

A Workers' Compensation report dated October 2011, was distributed.

10. **Board of Treasury Investments Report Distribution**

A Board of Treasury Investments Report dated August 31, 2011, was distributed.

11. **Other Business**

The meeting was adjourned.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor



*Budget Division
Building 1, Room 314-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*

304-347-4870

November 4, 2011

Executive Summary of Lottery, Unemployment, General Revenue and State Road Fund Reports to Joint Committee

Lottery Commission as of September 30, 2011:

Gross profit for the months of July - September 2011 (FY 2012) was \$ 153 million.

General Revenue Fund as of October 31, 2011:

Revenue collections for the four months of the fiscal year 2012 were 105.21% of the estimate.

State Road Fund as of October 31, 2011:

Fund collections were at 104.59% of the yearly estimate.

Unemployment Compensation Trust as of September 30, 2011:

Regular benefits paid for the first quarter of July through September 2011 were \$9.1 million less than in July through September 2010. Trust fund ending balance on September 30, 2011 was \$ 111,623,714.33.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor



Budget Division
Building 1, Room 314-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590

304-347-4870

MEMORANDUM

To: Honorable Chairmen and Members of the Joint Committee on
Government and Finance

From: Ellen Clark, CPA *EC*
Director Budget Division
Legislative Auditor's Office

Date: November 3, 2011

Re: Review of West Virginia Lottery Financial Information
As of September 30, 2011

We performed an analysis of the Statement of Revenues, Expenses and Retained Earnings for the month of September 2011 (end of first quarter of fiscal year 2012) from monthly unaudited financial reports furnished to our office by the West Virginia Lottery Commission. The results are as follows:

Lottery Revenues:

Gross lottery revenues are receipts from on-line games, instant games, table games and video lottery. These gross receipts totaled \$355,818,000.00 for the end of the first quarter of fiscal year 2012. Table games accounted for \$19.4 million of this total. Historic Resort Hotel video lottery and table games accounted for \$ 1.5 million of total gross receipts. Total gross receipts were \$354,347,000.00 for July - September of fiscal year 2010-2011. Gross lottery revenue has increased by 0.42% when compared with the same quarter of 2010-2011. This number does not include commission and prize deductions. Gross profit (Gross revenues minus commissions and prize costs) for July through September 2011 was \$155,089,000.00; for July - September of last fiscal year it

Lottery continued

Excess Lottery Fund

| | |
|--|----------------------|
| General Purpose Fund | \$49,178,000.00 |
| Economic Development Fund | 5,697,000.00 |
| Higher Education Improvement Fund | 4,500,000.00 |
| WV Infrastructure Council Fund | -0- |
| Higher Education Improvement Fund | 29,000,000.00 |
| Refundable Credit | 767,000.00 |
| State Park Improvement Fund | -0- |
| School Building Authority | 5,700,000.00 |
| Excess Lottery Surplus | -0- |
| Total State Excess Lottery Revenue Fund | 94,842,000.00 |

Historic Resort Hotel Distributions:

| | |
|----------------------------|------------|
| State General Revenue Fund | 297,000.00 |
| State Debt Reduction Fund | 88,000.00 |
| Tourism Promotion Fund | 14,000.00 |
| Total Historic Hotel | 399,000.00 |

Veterans Instant Ticket Fund 158,000.00

Table Games State Debt Reduction Fund 9,152,000.00

| | |
|--|----------------|
| RACETRACK VIDEO LOTTERY TRANSFERS: | |
| Tourism Promotion Fund 1.375% | \$2,663,000.00 |
| Development Office Promo Fund | \$726,000.00 |
| Research Challenge Fund .5% | \$968,000.00 |
| Capitol Renovation and Improvement Fund .6875% | \$1,331,000.00 |
| Parking Garage Fund .0625% | \$121,000.00 |

| | |
|---|--------------------------|
| Parking Garage Fund 1% | \$500,000.00 |
| Cultural Facilities and Cap. Resources Fund .5% | \$621,000.00 |
| Capitol Dome & Cap. Improvements Fund .5% | \$815,000.00 |
| Workers Compensation Debt Reduction Fund 7% | \$11,000,000.00 |
| | |
| SUBTOTAL VIDEO LOTTERY TRANSFERS: | \$18,745,000.00 |
| TOTAL TRANSFERS | *\$223,814,000.00 |

* CASH BASIS

| | |
|-------------------------------------|----------------|
| Total Accrued last FY 2011: | 178,218,000.00 |
| Total Cash Distributions FY 2012: | 223,814,000.00 |
| Applied to FY 2011: | 178,218,000.00 |
| Applied to FY 2012 | 45,596,000.00 |
| Revenue Ctr Construction Approp | 3,641,000.00 |
| Accrued for FY 2012 as of Sept. 30: | 160,880,000.00 |



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Earl Ray Tomblin
Governor

John C. Musgrave
Director

MEMORANDUM

TO: Joint Committee on Government and Finance

FROM: John C. Musgrave, Director 

RE: Monthly Report on Lottery Operations
Month Ending September 30, 2011

DATE: October 14, 2011

This report of the Lottery operations is provided pursuant to the State Lottery Act.

Financial statements of the Lottery for the month ending September 30, 2011 are attached. Lottery revenue, which includes on-line, instant, video lottery sales, table games, and historic resort, was \$115,068,915 for the month of September.

Transfers of lottery revenue totaling \$50,331,438 made for the month of September to the designated state agencies per House Bill 2012, Veterans Instant Ticket Fund, Racetrack Video Lottery Act (§29-22A-10), and the Racetrack Table Games Act (§29-22C-27). The amount transferred to each agency is shown in Note 10 on pages 18 and 19 of the attached financial statements.

The number of traditional and limited retailers active as of September 30, 2011 was 1,583 and 1,594 respectively.

A listing of the names and amounts of prize winners has been provided to the Clerk of the Senate, the Clerk of the House and Legislative Services.

If any member of the Committee has questions concerning the Lottery, please call me. Also if any members of the Legislature wish to visit the Lottery offices, I would be pleased to show them our facilities and discuss the Lottery with them.

JCM/rd
Attachment

pc: Honorable Earl Ray Tomblin, Governor
Charles O. Lorenson, Cabinet Secretary -- Dept. of Revenue
John Perdue, Treasurer
Glen B. Gainer III, Auditor
Members of the West Virginia Lottery Commission



WEST VIRGINIA LOTTERY

STATE OF WEST VIRGINIA

**FINANCIAL STATEMENTS
-UNAUDITED-**

September 30, 2011

WEST VIRGINIA LOTTERY

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WEST VIRGINIA LOTTERY
BALANCE SHEETS
(In Thousands)
-Unaudited-

| ASSETS | September 30, 2011 | June 30, 2011 |
|---|-----------------------|-------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 170,133 | \$ 266,196 |
| Accounts receivable | 33,299 | 29,783 |
| Inventory | 351 | 497 |
| Other assets | 2,316 | 2,134 |
| Total Current Assets | <u>206,099</u> | <u>298,610</u> |
| Noncurrent Assets: | | |
| Restricted cash and cash equivalents | 683 | 4,324 |
| Capital assets | 46,449 | 38,965 |
| Less accumulated depreciation and amortization | <u>(8,641)</u> | <u>(8,544)</u> |
| Net Capital Assets | <u>37,808</u> | <u>30,421</u> |
| Total Noncurrent Assets | <u>38,491</u> | <u>34,745</u> |
| Total Assets | <u>\$ 244,590</u> | <u>\$ 333,355</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accrued nonoperating distributions to the State of West Virginia | \$ 160,880 | \$ 178,218 |
| Deferred LVL permit fees | - | 58,863 |
| Estimated prize claims | 10,901 | 12,011 |
| Accounts payable | 3,693 | 4,440 |
| Other accrued liabilities | <u>26,403</u> | <u>40,751</u> |
| Total Current Liabilities | <u>201,877</u> | <u>294,283</u> |
| Total Liabilities | <u>201,877</u> | <u>294,283</u> |
| Net Assets: | | |
| Invested in capital assets | 37,808 | 30,421 |
| Unrestricted | 4,905 | 6,612 |
| Restricted assets (see note 12) | <u>-</u> | <u>2,039</u> |
| Total Net Assets | <u>42,713</u> | <u>39,072</u> |
| Total Liabilities and Net Assets | <u>\$ 244,590</u> | <u>\$ 333,355</u> |

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2011
(In Thousands)
-Unaudited-

| | CURRENT MONTH | | YEAR TO DATE | |
|--|------------------|------------------|------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Lottery revenues | | | | |
| On-line games | \$ 5,671 | \$ 6,165 | \$ 18,442 | \$ 18,291 |
| Instant games | 8,425 | 7,544 | 29,274 | 24,443 |
| Racetrack video lottery | 62,563 | 60,733 | 192,009 | 198,185 |
| Limited video lottery | 32,211 | 32,721 | 95,126 | 97,186 |
| Table games | 5,647 | 5,218 | 19,449 | 14,762 |
| Historic resort | 551 | 506 | 1,518 | 1,480 |
| | <u>115,070</u> | <u>112,889</u> | <u>355,818</u> | <u>354,347</u> |
| Less commissions | | | | |
| On-line games | 405 | 432 | 1,293 | 1,280 |
| Instant games | 590 | 528 | 2,049 | 1,711 |
| Racetrack video lottery | 37,340 | 36,718 | 110,657 | 114,570 |
| Limited video lottery | 15,783 | 16,034 | 46,612 | 47,621 |
| Table games | 2,427 | 2,243 | 8,357 | 6,344 |
| Historic resort | 262 | 263 | 813 | 755 |
| | <u>56,807</u> | <u>56,218</u> | <u>169,781</u> | <u>172,281</u> |
| Less on-line prizes | 2,698 | 3,608 | 9,379 | 9,918 |
| Less instant prizes | 4,901 | 5,145 | 19,032 | 16,597 |
| Less ticket costs | 125 | 172 | 519 | 575 |
| Less vendor fees and costs | 699 | 731 | 2,018 | 1,923 |
| | <u>8,423</u> | <u>9,656</u> | <u>30,948</u> | <u>29,013</u> |
| Gross profit | <u>49,940</u> | <u>47,015</u> | <u>155,089</u> | <u>153,053</u> |
| Administrative expenses | | | | |
| Advertising and promotions | 658 | 655 | 1,502 | 2,020 |
| Wages and related benefits | 1,053 | 990 | 3,214 | 2,925 |
| Telecommunications | 54 | 37 | 168 | 154 |
| Contractual and professional | 332 | 376 | 970 | 1,006 |
| Rental | 52 | 57 | 160 | 167 |
| Depreciation and amortization | 57 | 146 | 97 | 439 |
| Other administrative expenses | 181 | 111 | 463 | 396 |
| | <u>2,387</u> | <u>2,372</u> | <u>6,574</u> | <u>7,107</u> |
| Other Operating Income | <u>523</u> | <u>651</u> | <u>63,483</u> | <u>2,363</u> |
| Operating Income | <u>47,976</u> | <u>45,294</u> | <u>211,998</u> | <u>148,309</u> |
| Nonoperating income (expense) | | | | |
| Investment income | 13 | 28 | 46 | 86 |
| Capital contribution from State of WV | 1,789 | - | 3,641 | - |
| Distributions to municipalities and counties | (631) | (641) | (1,864) | (1,905) |
| Distributions -capital reinvestment | (18) | (17) | (63) | (47) |
| Distributions to the State of West Virginia | (47,340) | (44,664) | (210,117) | (145,443) |
| | <u>(46,187)</u> | <u>(44,294)</u> | <u>(208,357)</u> | <u>(148,309)</u> |
| Net income | <u>1,789</u> | <u>-</u> | <u>3,641</u> | <u>-</u> |
| Net assets, beginning of period | 40,924 | 36,383 | 39,072 | 36,383 |
| Net assets, end of period | \$ <u>42,713</u> | \$ <u>36,383</u> | \$ <u>42,713</u> | \$ <u>36,383</u> |

The accompanying notes are an integral part of these financial statements.

**WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2011**

(In Thousands)
-Unaudited-

| | 2011 | 2010 |
|---|--------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Cash received from customers and other sources | \$ 356,922 | \$ 355,320 |
| Cash payments for: | | |
| Personnel costs | (2,875) | (2,604) |
| Suppliers | (4,147) | (5,291) |
| Other operating costs | (206,267) | (189,994) |
| Cash provided by operating activities | <u>143,633</u> | <u>157,431</u> |
| Cash flows from noncapital financing activities: | | |
| Nonoperating distributions to the State of West Virginia | (223,814) | (229,745) |
| Distributions to municipalities and counties | (1,837) | (1,889) |
| Distributions to racetrack from racetrack cap. reinv. fund | (10,248) | (6,191) |
| Cash used in noncapital financing activities | <u>(235,899)</u> | <u>(237,825)</u> |
| Cash flows from capital and related financing activities: | | |
| Purchases of capital assets | <u>(7,484)</u> | <u>(274)</u> |
| Cash flows from investing activities: | | |
| Investment earnings received | <u>46</u> | <u>86</u> |
| | | |
| Increase (decrease) in cash and cash equivalents | (99,704) | (80,582) |
| | | |
| Cash and cash equivalents - beginning of period | 270,520 | 264,710 |
| Cash and cash equivalents - end of period | \$ <u>170,816</u> | \$ <u>184,128</u> |
| | | |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 211,998 | \$ 148,309 |
| Adjustments to reconcile operating income to cash provided by operating activities: | | |
| Depreciation and amortization | 97 | 439 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (3,516) | (1,390) |
| (Increase) decrease in inventory | 146 | 128 |
| (Increase) decrease in other assets | (182) | 62 |
| Increase (decrease) in estimated prize claims | (1,110) | (321) |
| Increase (decrease) in accounts payable | (747) | (641) |
| Increase (decrease) in deferred revenue | (58,863) | - |
| Increase (decrease) in other accrued liabilities | (4,190) | 10,845 |
| Cash provided by operating activities | <u>\$ 143,633</u> | <u>\$ 157,431</u> |

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 1 - LEGISLATIVE ENACTMENT

The West Virginia Lottery (Lottery) was established by the State Lottery Act (Act) passed April 13, 1985, which created a special fund in the State Treasury designated as the "State Lottery Fund." The purpose of the Act was to establish and implement a state-operated lottery under the supervision of a state lottery commission (Commission) and a director. The Commission, consisting of seven members and the Director are appointed by the Governor. Under the Act, the Commission has certain powers and the duty to establish rules for conducting games, to select the type and number of gaming systems or games and to enter into contracts and agreements, and to do all acts necessary or incidental to the performance of its duties and exercise of its power and duty to operate the Lottery in a highly efficient manner. The Act provides that a minimum annual average of 45% of the gross amount received from each lottery shall be allocated for prizes and also provides for certain limitations on expenses necessary for operation and administration of the Lottery. To the extent available, remaining net profits are to be distributed to the State of West Virginia. As the State is able to impose its will over the Lottery, the Lottery is considered a component unit of the State and its financial statements are presented in the comprehensive annual financial report of the State as a blended proprietary fund component unit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lottery is presented below.

BASIS OF PRESENTATION – The West Virginia Lottery is a component unit of the State of West Virginia, and is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," and with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Lottery has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 unless the GASB specifically adopts such FASB statements or interpretations.

The Lottery is included in the State's basic financial statements as a proprietary fund and business type activity using the accrual basic of accounting. Because of the Lottery's presentation in these financial statements as a special purpose government engaged in business type activities, there may be differences in presentation of amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

USE OF ESTIMATES – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and develop assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from management's estimates.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LOTTERY GAME OPERATIONS – The West Virginia Lottery derives its revenues from four basic types of lottery games: instant, on-line, video type games, and table games. The Lottery develops multiple game themes and prize structures to comply with its enabling legislation, including aggregate annual minimum prize provisions. All bonded retailers and agents comprised principally of grocery and convenience stores serve as the primary distribution channel for instant and on-line lottery sales to the general public.

The Lottery has contracted with a private vendor to manufacture, distribute, and provide data processing support for instant and on-line games. Under the terms of the agreements, the Lottery pays a percentage of gross revenues or gross profits for the processing and manufacture of the games.

Revenue from instant games is recognized when game tickets are sold to the retailers, and the related prize expense is recorded based on the specific game prize structure. Instant ticket sales and related prizes do not include the value of free plays issued for the purpose of increasing the odds of winning a prize.

Sales of on-line lottery tickets are made by licensed agents to the public with the use of computerized terminals. On-line games include POWERBALL®, a multi-state “jackpot” game; HOT LOTTO®, a multi-state “lotto” game; Mega Millions®, a multi-state “jackpot” game; Cash25 “lotto” game; Daily 3 and 4 “numbers” games; and Travel, a daily “keno” game. Revenue is recognized when the agent sells the tickets to the public. Prize expense is recognized on the basis of actual drawing results.

Commissions are paid to instant game retailers and on-line agents at the rate of seven percent of gross sales. A portion of the commission not to exceed one and one quarter percent of gross sales may be paid from unclaimed prize moneys. The amount paid from unclaimed prize moneys is credited against prize costs. In addition, retailers and agents are paid limited bonus incentives that include prize shares on winning tickets they sold and a ticket cashing bonus on winning tickets they cash. On a weekly basis, retailers and agents must remit amounts due to the Lottery. Retailers may not be able to order additional instant tickets if payment has not been made for the previous billing period, while an agent’s on-line terminal may be rendered inactive if payment is not received each week. No one retailer or agent accounts for a significant amount of the Lottery’s sales or accounts receivable. Historically credit losses have been nominal and no allowance for doubtful accounts receivable is considered necessary.

Video lottery is a self-activated video version of lottery games which is operated by an authorized licensee. The board-operated games allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The coin operated games allow a player to use coins, currency, or tokens to place bets for the chance to receive coin or token awards which may be redeemed for cash or used for replay in the coin operated games. The video lottery games’ prize structures are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as video lottery revenue “gross terminal income” equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to the private and local government entities are reported as commissions. WV Lottery statutes have established specific requirements for video lottery and imposed certain restrictions limiting the licensing for operation of video lottery games to horse and dog racetracks in West Virginia (subject to local county elections permitting the same), limited licensed retailer areas restricted for adult amusement, and licensed historic resort hotels as defined by WV Code.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The legislation further stipulates the distribution of revenues from video lottery games, and requires any video lottery licensee to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Table games are lotteries as each game involves consideration, the possibility of a prize, and their outcome is determined predominantly by chance, which the common law of West Virginia has long held are the three essential elements of a lottery. Table games are the exclusive intangible intellectual property of the state of West Virginia. Table games legislation has established specific requirements for table games and imposed certain restrictions limiting the licensing for operation of table games to horse and dog racetracks in West Virginia (subject to local county elections permitting the same), and licensed historic resort hotels as defined by WV Code. Each licensee as an agent of the Lottery Commission to operate West Virginia table games shall have written rules of play for each table game it operates which must be approved by the Commission. All wagers and pay-offs of winning wagers shall be made according to those rules of play. For the privilege of holding a table games license, there is levied a privilege tax of thirty-five percent of each licensee's adjusted gross receipts for the operation of West Virginia Lottery table games. Amounts required by statute to be paid to private and local government entities are reported as commissions. The legislation further stipulates the distribution of revenues from West Virginia table games, and requires any licensee to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents primarily consist of interest-earning deposits in an external investment pool maintained by the West Virginia Board of Treasury Investments (BTI). The BTI pool is a 2a-7 like pool carried at amortized cost which approximates fair value of the underlying securities.

INVENTORY – Inventory consists of instant game tickets available for sale to approved Lottery retailers and is carried at cost as determined by the specific identification method.

OTHER ASSETS – Other assets consist of deposits restricted for payment of certain Multi-State Lottery Association activities and prepaid expenses.

CAPITAL ASSETS – The Lottery has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000. These assets include leasehold improvements and purchased equipment, comprised principally of technology property, office furnishings and equipment necessary to administer lottery games, are carried at cost. Depreciation is computed by the straight-line method using three to ten year lives.

ADVERTISING AND PROMOTIONS – The Lottery expenses the costs of advertising and promotions as they are incurred.

COMPENSATED ABSENCES – The Lottery has accrued \$523,398 and \$500,740 of at June 30, 2011 and 2010, respectively, for estimated obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Employees fully vest in all earned but unused vacation. To the extent that accumulated sick leave is expected to be converted to benefits on termination or retirement, the Lottery participates in an other postemployment benefits plan (see Note 16).

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET ASSETS – Net assets are presented as restricted, unrestricted and invested in capital assets which represent the net book value of all property and equipment of the Lottery. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

OPERATING REVENUES AND EXPENSES – Operating revenues and expenses for proprietary funds such as the Lottery are revenues and expenses that result from providing services and producing and delivering goods and/or services. Operating revenues for the Lottery are derived from providing various types of lottery games. Operating expenses include commissions, prize costs, other direct costs of providing lottery games, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 3 - CASH AND CASH EQUIVALENTS

At September 30, 2011 the carrying amounts of deposits (overdraft) with financial institutions were (\$9) thousand with a bank balance (overdraft) of \$29 thousand. Of this balance \$250 thousand was covered by federal depository insurance with the remaining balance collateralized with securities held by the State of West Virginia's agent in the State's name.

A summary of the amount on deposit with the West Virginia Board of Treasury Investments (BTI) is as follows (in thousands):

| | <u>September 30, 2011</u> | <u>June 30, 2011</u> |
|---|---------------------------|----------------------|
| Deposits with financial institutions | \$ (9) | \$ (56) |
| Cash on hand at the Treasurer's Office | 35,244 | 45,547 |
| Investments with BTI reported as cash equivalents | <u>135,581</u> | <u>225,029</u> |
| | <u>\$ 170,816</u> | <u>\$ 270,520</u> |

The deposits with the BTI are part of the State of West Virginia's consolidated investment cash liquidity pool. Investment income is pro-rated to the Lottery at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Such funds are available to the Lottery with overnight notice.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 4 – CAPITAL ASSETS

A summary of capital asset activity for the month ended September 30, 2011 is as follows (in thousands):

| | Historical Cost At June 30, 2011 | Additions | Deletions | Historical Cost At September 30, 2011 |
|----------------------------------|-------------------------------------|-----------------|-------------|--|
| Construction in Progress | \$ 8,444 | \$ 5,862 | \$ - | \$ 14,306 |
| Land | 1,434 | - | - | 1,434 |
| Buildings | 20,174 | - | - | 20,174 |
| Improvements | 1,170 | - | - | 1,170 |
| Equipment | 7,743 | 1,622 | - | 9,365 |
| | <u>\$ 38,965</u> | <u>\$ 7,484</u> | <u>\$ -</u> | <u>\$ 46,449</u> |
| Accumulated Depreciation: | | | | |
| | Historical Cost At June 30, 2011 | Additions | Deletions | Historical Cost At September 30, 2011 |
| Improvements | \$ 1,142 | \$ 2 | \$ - | \$ 1,144 |
| Equipment | 7,402 | 95 | - | 7,497 |
| | <u>\$ 8,544</u> | <u>\$ 97</u> | <u>\$ -</u> | <u>\$ 8,641</u> |

NOTE 5 - PARTICIPATION IN THE MULTI-STATE LOTTERY

The Lottery is a member of the Multi-State Lottery (MUSL), which operates the semi-weekly POWERBALL® jackpot lotto game, the HOT LOTTO® game, and the MEGA MILLIONS® jackpot game on behalf of participating state lotteries. MUSL is currently comprised of 33 member state lotteries, including the District of Columbia and the United States Virgin Islands. MUSL is managed by a Board of Directors, which is comprised of the lottery directors or their designee from each of the party states. The Board of Directors' responsibilities to administer the Multi-State Lottery Powerball, Hot Lotto, and Mega Millions games are performed by advisory committees or panels staffed by officers and independent contractors appointed by the board. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties and qualifications. The Executive Committee carries out the budgeting and financing of MUSL, while the board contracts the annual independent audit. A copy of the audit may be obtained by writing to the Multi-State Lottery Association, 1701-48th Street, Suite 210, West Des Moines, Iowa 50266-6723.

Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the total prize pool less the amount of prizes won in each state. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL®, HOT LOTTO® and MEGA MILLIONS® is 50% of each drawing period's sales, with minimum jackpot levels. The Lottery's revenues and expenses from MUSL games participation for the month ended September 30, 2011 and year-to-date is as follows:

WEST VIRGINIA LOTTERY
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-Unaudited-

NOTE 5 - PARTICIPATION IN THE MULTI-STATE LOTTERY (continued)

| <u>Revenues</u> | <u>Month</u> | <u>Y-T-D</u> |
|-----------------|--------------|---------------|
| Powerball | \$ 2,381,655 | \$ 8,715,477 |
| Hot Lotto | 388,825 | 1,194,937 |
| Mega Millions | 824,675 | 2,264,011 |
| Total | \$ 3,595,155 | \$ 12,174,425 |

| <u>Expenses (Prizes)</u> | <u>Month</u> | <u>Y-T-D</u> |
|--------------------------|--------------|--------------|
| Powerball | \$ 1,190,837 | \$ 4,358,119 |
| Hot Lotto | 194,418 | 597,571 |
| Mega Millions | 424,708 | 1,166,052 |
| Total | \$ 1,809,963 | \$ 6,121,742 |

MUSL places a percentage of game sales from each game in separate prize reserve funds that serve as a contingency reserve to protect the respective MUSL Product Groups from unforeseen prize liabilities. These funds can only be used at the discretion of the respective MUSL Product Group. Once the prize reserve funds exceed the designated limit, the excess becomes part of that particular prize pool. Prize reserve fund monies are refundable to MUSL Product Group members if the MUSL disbands or, after one year, if a member leaves the MUSL. The applicable sales percentage contribution as well as the reserve fund limit for the MUSL games is as follows:

| | <u>PowerBall</u> | <u>Hot Lotto</u> | <u>Mega Millions</u> |
|------------------------------------|------------------|------------------|----------------------|
| Required Contribution (% of sales) | 2% | 3% | 1% |
| Reserve Fund Cap | \$125,000,000 | \$9,000,000 | N/A |

At September 30, 2011, the Lottery's share of the prize reserve fund balances were as follows:

| <u>Game</u> | <u>Total Prize Reserve</u> | <u>Lottery Share</u> |
|---------------|----------------------------|----------------------|
| Powerball | \$ 124,215,504 | \$ 2,386,175 |
| Hot Lotto | 7,387,159 | 485,948 |
| Mega Millions | 9,938,487 | 207,718 |
| Total | \$ 141,541,150 | \$ 3,079,841 |

Lottery prize reserves held by the MUSL are invested according to a Trust agreement the Lottery has with MUSL outlining investment policies. The policies restrict investments to direct obligations of the United States Government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States Government, and mutual funds of approved investments. The average portfolio maturity is never more than one year, except that up to one third of the portfolio may have an average maturity of up to two years. The maximum maturity for any one security does not exceed five years.

**WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS**

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NOTE 5 - PARTICIPATION IN THE MULTI-STATE LOTTERY (continued)

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above that are credited to an unreserved fund. The Lottery records this as interest when earned. This fund had a balance of \$13,317,524 at September 30, 2011, of which the Lottery's share was \$1,575,580.

NOTE 6 - RACETRACK VIDEO LOTTERY

The Racetrack Video Lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Sixty-six percent (66%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (47%); other private entities associated with the racing industry (17%); and the local county and municipal governments (2%). The remaining revenues (34%) of net terminal revenue is allocated for distribution to State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in the Note 10 titled "Nonoperating Distributions to the State of West Virginia."

The first benchmark occurs when the current year net terminal revenue meets the fiscal year 1999 net terminal revenue. The counties and incorporated municipalities split 50/50 the two percent (2%) net terminal revenue.

The second benchmark occurs when the current year gross terminal revenue meets the fiscal year 2001 gross terminal revenue. The four percent (4%) is no longer allocated for lottery administrative costs; instead the State receives this for distribution as specified by legislation or the State budget.

The final benchmark occurs when the current year net terminal revenue meets the fiscal year 2001 net terminal revenue. At this point a 10% surcharge is applied to net terminal revenue, with 58% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 42% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack.

After deduction of the surcharge, 55% of net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (11%); and the local county and incorporated municipality governments (2%). The remaining net terminal revenue (45%) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 10. Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund.

The WV Lottery, along with the Rhode Island and Delaware lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee of .74% of the amount wagered. A summary of racetrack video lottery revenues for the month ended September 30, 2011 and year-to-date follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - RACETRACK VIDEO LOTTERY (continued)

| | Current Month | | Year-to-Date | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Total credits played | \$ 687,848 | \$ 666,102 | \$ 2,130,654 | \$ 2,163,590 |
| Credits (prizes) won | (617,382) | (598,397) | (1,913,548) | (1,944,195) |
| Promotional credits played | (7,858) | (6,682) | (24,986) | (20,196) |
| MWAP Contributions | (43) | (288) | (111) | (1,014) |
| Gross terminal income | 62,565 | 60,735 | 192,009 | 198,185 |
| Administrative costs | (2,503) | (2,429) | (7,680) | (7,928) |
| Net Terminal Income | 60,062 | 58,306 | 184,329 | 190,257 |
| Less distribution to agents | (37,340) | (36,718) | (110,657) | (114,570) |
| Racetrack video lottery revenues | <u>\$ 22,722</u> | <u>\$ 21,588</u> | <u>\$ 73,672</u> | <u>\$ 75,687</u> |

A summary of video lottery revenues paid or accrued for certain state funds to conform with the legislation follows (in thousands):

| | September 30, 2011 | Year-to-Date |
|---|--------------------|------------------|
| State Lottery Fund | \$ 18,019 | \$ 55,298 |
| State Excess Lottery Revenue Fund | - | - |
| Capital Reinvestment Fund | - | - |
| Tourism Promotion Fund 1.375% | 826 | 2,535 |
| Development Office Promotion Fund .375 % | 225 | 691 |
| Research Challenge Fund .5 % | 300 | 922 |
| Capitol Renovation & Improvement Fund .6875 % | 413 | 1,267 |
| Parking Garage Fund .0625 % | 38 | 115 |
| Parking Garage Fund 1 % | - | 500 |
| Cultural Facilities & Capitol Resources Fund .5 % | 300 | 672 |
| Capitol Dome & Capitol Improvements Fund .5 % | 300 | 672 |
| Worker's Compensation Debt Reduction Fund 7 % | 2,301 | 11,000 |
| Total nonoperating distributions | <u>\$ 22,722</u> | <u>\$ 73,672</u> |

NOTE 7 - LIMITED VIDEO LOTTERY

Limited video lottery legislation passed in 2001 has established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from the limited video lottery games, and requires any licensees to comply with all related rules and regulations of the Lottery in order to continue its retailer status. The Limited Video Lottery legislation stipulates that 2% of gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act, and is recorded as limited

WEST VIRGINIA LOTTERY
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NOTE 7 - LIMITED VIDEO LOTTERY (continued)

video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the month ended September 30, 2011 and year-to-date follows (in thousands):

| | Current Month | | Year-to-Date | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Total credits played | \$ 375,995 | \$ 383,320 | \$ 1,115,623 | \$ 1,143,378 |
| Credits (prizes) won | (343,784) | (350,599) | (1,020,497) | (1,046,192) |
| Gross terminal income | \$ 32,211 | \$ 32,721 | \$ 95,126 | \$ 97,186 |
| Administrative costs | (644) | (654) | (1,903) | (1,944) |
| Gross Profit | 31,567 | 32,067 | 93,223 | 95,242 |
| Commissions | (15,783) | (16,034) | (46,612) | (47,621) |
| Municipalities and Counties | (631) | (641) | (1,864) | (1,905) |
| Limited video lottery revenues | <u>\$ 15,153</u> | <u>\$ 15,392</u> | <u>\$ 44,747</u> | <u>\$ 45,716</u> |

NOTE 8 - TABLE GAMES

Table Games legislation passed in 2007 per House Bill 2718. Table games include blackjack, roulette, craps, and various types of poker. Each racetrack licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts which will be deposited weekly into the Racetrack Table Games Fund.

From the gross amounts deposited into the Racetrack Table Games Fund, the Commission, on a monthly basis shall:

Retain 3% of the adjusted gross receipts for administrative expenses of which at least \$100,000 and not more than \$500,000 annually will be transferred to the Compulsive Gambling Treatment Fund. Transfer two and one-half percent of adjusted gross receipts from all thoroughbred racetracks with West Virginia Lottery table games to the special funds established by each thoroughbred racetrack table games licensee for the payment of regular racetrack purses to be divided equally among each licensee and transfer two and one-half percent of adjusted gross receipts from all greyhound racetracks with West Virginia Lottery table games to the special funds established by each greyhound racetrack table games licensee for the payment of regular racetrack purses to be divided equally among each licensee. Transfer two percent of the adjusted gross receipts from all licensed racetracks to the Thoroughbred Development Fund and the Greyhound Breeding Development Fund to be divided pro rata among the development funds. Transfer one percent of the adjusted gross receipts from each licensed racetrack to the county commissions of the counties where racetracks with West Virginia Lottery table games are located to be divided pro rata among the counties. Transfer two percent of the adjusted gross receipts from each licensed racetrack to the governing bodies of municipalities within counties where racetracks with West Virginia Lottery table games are located as prescribed by statute. And transfer one-half of one percent of the adjusted gross receipts to the governing bodies of municipalities in which a racetrack table games licensee is located to be divided equally among the municipalities. The Commission will distribute the remaining amounts, hereinafter referred to as the net amounts in the Racetrack Table Games Funds as follows:

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 – TABLE GAMES (continued)

- 1) Transfer four percent into a special fund to be established by the Racing Commission to be used for payment into the pension plan for all employees of each licensed racing association;
- 2) Transfer ten percent, to be divided and paid in equal shares, to each county commission in the state where table games are not located;
- 3) Transfer ten percent, to be divided and paid in equal shares, to the governing bodies of each municipality in the state where table games are not located; and
- 4) Transfer seventy-six percent to the State Debt Reduction Fund.

The cash transferred to the State Debt Reduction Fund in the current month is included in Note 10- Nonoperating Distributions to the State of West Virginia. The table games adjusted gross receipts for the month ended September 30, 2011 and year-to-date were \$16,133,420 and \$55,569,140, respectively. The following table shows the month and year totals of the privilege tax and the accrued distributions (in thousands) to be transferred in the subsequent month:

| | Current Month | | Year-to-Date | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Table Games Privilege Tax | \$ 3,647 | \$ 5,218 | \$ 19,449 | \$ 14,762 |
| Interest on Table Games Fund | - | 1 | 1 | 2 |
| Administrative costs | (645) | (596) | (2,223) | (1,688) |
| Total Available for Distribution | <u>5,002</u> | <u>4,623</u> | <u>17,227</u> | <u>13,076</u> |
| <u>Less Distributions:</u> | | | | |
| Racetrack Purse Funds | 403 | 373 | 1,389 | 1,054 |
| Thoroughbred & Greyhound Development Funds | 323 | 299 | 1,111 | 844 |
| Racing Association Pension Plan | 136 | 125 | 467 | 354 |
| Municipalities/ Counties | <u>1,565</u> | <u>1,446</u> | <u>5,390</u> | <u>4,092</u> |
| Total Distributions | <u>2,427</u> | <u>2,243</u> | <u>8,357</u> | <u>6,344</u> |
| State Debt Reduction Fund | <u>\$ 2,575</u> | <u>\$ 2,380</u> | <u>\$ 8,870</u> | <u>\$ 6,732</u> |

NOTE 9 – HISTORIC RESORT HOTEL

In 2009, the Legislature passed Senate Bill 575 which permits video lottery and table games at a licensed historic resort hotel which is defined as "a resort hotel registered with the United States Department of the Interior as a national historic landmark in its National Registry of Historic Places having not fewer than five hundred guest rooms under common ownership and having substantial recreational guest amenities in addition to the gaming facility."

Historic Resort Video Lottery

According to Senate Bill 575, thirty six percent (36%) of gross terminal income is allocated to Historic Resort Hotel Fund and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for each licensed historic resort hotel. The remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the

WEST VIRGINIA LOTTERY
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NOTE 9 – HISTORIC RESORT HOTEL (continued)

historic resort hotel. A summary of historic resort hotel video lottery revenues for the month ended September 30, 2011 and year-to-date follows (in thousands):

| | Current Month | | Year-to-Date | |
|-----------------------------|---------------|----------|--------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Total credits played | \$ 5,700 | \$ 4,188 | \$ 16,007 | \$ 11,970 |
| Credits (prizes) won | (5,322) | (3,820) | (14,770) | (10,930) |
| Promotional credits played | (51) | (10) | (105) | (37) |
| Gross terminal income | 327 | 358 | 1,132 | 1,003 |
| Capital reinvestment | (15) | (17) | (53) | (47) |
| Administrative costs | (18) | (19) | (61) | (54) |
| Modernization Fund | (3) | - | (10) | - |
| Hotel commissions | (138) | (151) | (479) | (424) |
| Net terminal income | 153 | 171 | 529 | 478 |
| Historic Resort Hotel Fund | 97 | 109 | 337 | 307 |
| Human Resource Benefit Fund | 56 | 62 | 192 | 171 |

Historic Resort Table Games

Each historic resort hotel licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts, of which thirty percent (30%) is deposited directly into the Historic Resort Hotel Fund and five percent (5%) is deposited directly into the Human Resource Benefit Fund. The historic resort hotel table games adjusted gross receipts for the month ended September 30, 2011 and year-to-date were \$641,248 and \$1,104,408, respectively.

The following table shows the month and year -to- date totals of the privilege tax and the accrued distributions (in thousands) to be transferred in the subsequent month:

| | Current Month | | Year-to-Date | |
|----------------------------------|---------------|--------|--------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Table games privilege tax | \$ 224 | \$ 148 | \$ 387 | \$ 477 |
| Administrative Costs | (29) | (19) | (50) | (61) |
| Total Available for Distribution | 195 | 129 | 337 | 416 |
| Historic Resort Hotel Fund | 164 | 108 | 281 | 348 |
| Human Resource Benefit Fund | 31 | 21 | 56 | 68 |

Historic Resort Hotel Fund

Of the monies deposited into the Historic Resort Hotel Fund, fifteen percent (15%) is allocated for lottery administrative costs. The remaining Historic Resort Hotel Fund net income (gross deposits less 15%) is distributed as follows:

- 1) Sixty-four percent (64%) is paid to the State of West Virginia General Revenue Fund;

**WEST VIRGINIA LOTTERY
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NOTE 9 – HISTORIC RESORT HOTEL (continued)

- 2) Nineteen percent (19%) is paid to the State Debt Reduction Fund;
- 3) Three percent (3%) is paid to the State of West Virginia Tourism Promotion Fund;
- 4) Four percent (4%) is paid to the county where the gaming facility is located;
- 5) Two and one-half percent (2.5%) is paid to the municipality where the gaming facility is located as prescribed by statute;
- 6) Two and one-half percent (2.5%) is divided and paid in equal shares to the remaining municipalities in the county where the gaming facility is located;
- 7) Two and one-half percent (2.5%) is divided and paid in equal shares, to each county commission in the state where the gaming facility is not located;
- 8) Two and one-half percent (2.5%) is divided and paid in equal shares, to each municipality in the state not already receiving a distribution as described in item five (5) or item six (6) above.

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands):

| | <u>Current Month</u> | <u>Year-to-Date</u> |
|--|----------------------|---------------------|
| Historic Resort Hotel Video Lottery | \$ 97 | \$ 337 |
| Historic Resort Table Games | 164 | 281 |
| Interest on Historic Resort Hotel Fund | - | - |
| Historic Resort Hotel Fund Net Income | <u>261</u> | <u>618</u> |
| Municipalities/ Counties | 36 | 87 |
| State General Revenue Fund | 167 | 395 |
| State Debt Reduction Fund | 50 | 117 |
| State Tourism Promotion Fund | 8 | 19 |
| Total Distributions | <u>\$ 261</u> | <u>\$ 618</u> |

NOTE 10- NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

The Lottery periodically distributes surplus funds, exclusive of amounts incurred and derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the legislation. For the year ending June 30, 2012 the State Legislature budgeted \$166,297,857 of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000, \$1,000,000, and \$500,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently payments are \$4,800,000 per month for the first ten months of each fiscal year. In addition, Legislation provides that, if in any month, there is a shortage of funds in the State Excess Lottery Revenue Fund to make debt service payments, the necessary amount shall be transferred from the State Lottery Fund to cover such shortfall, after the State Lottery Fund debt service payments have been made. Repayments to the State Lottery Fund are required to be made in subsequent months as funds become available. During the month ended September 30, 2011 the Lottery made such distributions and accrued additional distributions of \$39,836,640. The Lottery is a non-appropriated state

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
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NOTE 10- NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA
(continued)

agency and therefore does not have a budget adopted by the Legislature. Since the enactment of the Racetrack Video Lottery Act, the Lottery is also statutorily required to distribute income from racetrack video lottery operations as described in Note 6. For the month ended September 30, 2011, the Lottery accrued additional distributions relating to racetrack video lottery, table games, and historic resort operations of \$402,003, \$2,575,183, and \$224,101, respectively.

Note 7 describes the Limited Video Lottery Act and the statutory distributions required to be made from limited video lottery operations. Note 8 describes the Table Games Act and the statutory distributions required to be made from table games operations. Note 9 describes the Historic Resort Hotel statutory distributions to be made from historic resort operations.

A summary of the cash distributions made to certain state agencies to conform to the legislation follows (in thousands):

| <u>BUDGETARY DISTRIBUTIONS</u> | <u>September 30, 2010</u> | <u>Year-to-Date</u> |
|---|---------------------------|---------------------|
| <u>Revenue Center Construction Fund</u> | | |
| State Road Fund | \$ 15,000 | \$ 15,000 |
| <u>State Lottery Fund:</u> | | |
| Community and Technical College | \$ 500 | \$ 1,499 |
| Bureau of Senior Services | 8,556 | 36,757 |
| Department of Education | 4,037 | 17,343 |
| Library Commission | 1,488 | 6,392 |
| Higher Education-Policy Commission | 1,084 | 4,656 |
| Tourism | 972 | 4,175 |
| Natural Resources | 447 | 1,922 |
| Division of Culture & History | 776 | 3,332 |
| Department of Education & Arts | 243 | 1,043 |
| Building Commission | 1,000 | 2,999 |
| School Building Authority | 1,800 | 5,400 |
| Total State Lottery Fund | <u>\$ 20,903</u> | <u>\$ 85,518</u> |

WEST VIRGINIA LOTTERY
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NOTE 10- NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA
(continued)

State Excess Lottery Revenue Fund:

| | | |
|--|------------------|------------------|
| Economic Development Fund | \$ 1,899 | \$ 5,697 |
| Higher Education Improvement Fund | 1,500 | 4,500 |
| General Purpose Account | 9,131 | 49,178 |
| Higher Education Improvement Fund | - | 29,000 |
| State Park Improvement Fund | - | - |
| School Building Authority | 1,900 | 5,700 |
| Refundable Credit | - | 767 |
| Excess Lottery Surplus | - | - |
| West Va. Infrastructure Council | - | - |
| Total State Excess Lottery Revenue Fund | \$ 14,430 | \$ 94,842 |

| | | |
|---------------------------------------|------------------|-------------------|
| Total Budgetary distributions: | \$ 50,333 | \$ 195,360 |
|---------------------------------------|------------------|-------------------|

| | | |
|-------------------------------------|--------------|---------------|
| Veterans Instant Ticket Fund | \$ 48 | \$ 158 |
|-------------------------------------|--------------|---------------|

Other Racetrack Video Lottery distributions:

| | | |
|---|-----------------|------------------|
| Tourism Promotion Fund 1.375% | \$ 956 | \$ 2,663 |
| Development Office Promotion Fund .375% | 260 | 726 |
| Research Challenge Fund .5% | 347 | 968 |
| Capitol Renovation & Improvement Fund .6875% | 477 | 1,331 |
| Parking Garage Fund .0625 % | 43 | 121 |
| Parking Garage Fund 1 % | - | 500 |
| Cultural Facilities & Cap. Resources Fund .5% | 347 | 621 |
| Capitol Dome & Cap. Improvements Fund .5% | 347 | 815 |
| Workers Compensation Debt Reduction Fund 7% | 3,666 | 11,000 |
| Total | \$ 6,443 | \$ 18,745 |

| | | |
|--|-----------------|-----------------|
| Table Games State Debt Reduction Fund | \$ 3,037 | \$ 9,152 |
|--|-----------------|-----------------|

Historic Resort Hotel distributions:

| | | |
|----------------------------|---------------|---------------|
| State General Revenue Fund | \$ 139 | \$ 297 |
| State Debt Reduction Fund | 41 | 88 |
| Tourism Promotion Fund | 7 | 14 |
| Total | \$ 187 | \$ 399 |

| | | |
|--|------------------|-------------------|
| Total nonoperating distributions to the State of West Virginia (cash basis) | \$ 60,048 | \$ 223,814 |
|--|------------------|-------------------|

| | | |
|---|------------------|-------------------|
| West Virginia Lottery RCC Fund Appropriation | 1,789 | 3,641 |
| Accrued nonoperating distributions, beginning | (175,377) | (178,218) |
| Accrued nonoperating distributions, end | 160,880 | 160,880 |
| | \$ 47,340 | \$ 210,117 |

WEST VIRGINIA LOTTERY
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NOTE 11 – LEASES

The Lottery leases, under a cancelable operating lease, its office and warehouse facilities. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the year-to-date ended September 30, 2011 and September 30, 2010 approximated \$159,903 and \$166,957 respectively.

The Lottery leases office space under the terms of a non-cancellable operating lease to various tenants. Rental revenue for the month ended September 30, 2011 and year-to-date were \$81,400 and \$246,199, respectively. Future rental receipts (in thousands) are as follows:

| Year Ended June 30 | Rental Receipts |
|-----------------------|--------------------|
| 2012 | \$ 708 |
| 2013 | 962 |
| 2014 | 986 |
| 2015 | 248 |
| Total | \$ 2,904 |

NOTE 12 – RESTRICTED NET ASSETS

On June 14, 2006, House Bill 106 was enacted by the West Virginia State Legislature to set aside unexpended administrative expenses of the Lottery up to the limits for such expenses established by the enabling legislation of traditional, racetrack video lottery, and limited video lottery games in an amount not to exceed \$20,000,000 beginning in fiscal year 2006 and each year through fiscal year 2012. These assets are to be set aside for the design and construction of a building for the use of the Lottery and certain other State of West Virginia governmental entities. Contributions to the fund for fiscal years ending June 30, 2011 and June 30, 2010 were as follows:

| | June 30, 2011 | June 30, 2010 |
|-------------------------------------|---------------|---------------|
| Beginning balance | \$ 8,355 | \$ 69,870 |
| Additions | | |
| Administrative surplus contribution | | |
| Fund interest | | 93 |
| Deductions | | |
| Asset acquisition | | (21,608) |
| Surplus of excess funds | | (40,000) |
| Ending balance | \$ 8,355 | \$ 8,355 |

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 13 – COMMITMENTS

For the year ended June 30, 2011, the Lottery Commission has designated \$594,218 of unexpended administrative funds for the acquisition of capital assets. As of June 30, 2011 and 2010, \$4,480,629 and \$5,921,057, respectively, are included in unrestricted net assets and invested in capital assets for this purpose.

NOTE 14 - RETIREMENT BENEFITS

All full-time Lottery employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit public employee retirement system. The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement (CPRB) under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and nine members appointed by the Governor. CPRB prepares separately issued financial statements covering all retirement systems it administers, which can be obtained from Consolidated Public Retirement Board, 4101 MacCorkle Ave. S.E., Charleston, West Virginia 25304-1636.

Employees who retire at or after age sixty with five or more years of contributory service or who retire at or after age fifty-five and have completed twenty-five years of credited service with age and credited service equal to eighty or greater are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's average annual salary from the highest 36 consecutive months within the last 10 years of employment, multiplied by the number of years of the employee's credited service at the time of retirement. Covered employees are required to contribute 4.5% of their salary to the PERS. The Lottery is required to contribute 14.5% of covered employees' salaries to the PERS. The required employee and employer contribution percentages have been established and changed from time to time by action of the State Legislature. The required contributions are not actuarially determined; however, actuarial valuations are performed to assist the Legislature in determining appropriate contributions. The Lottery and employee contributions, for the month ending September 30, 2011 and year-to-date are as follows (in thousands):

| | September 30, 2011 | Year-to-Date |
|------------------------|--------------------|--------------|
| Lottery contributions | \$ 97 | \$ 304 |
| Employee contributions | 30 | 94 |
| Total contributions | \$ 127 | \$ 398 |

NOTE 15 - RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery participates in several risk management programs administered by the State of West Virginia. Each of these risk pools has issued separate audited financial reports on their operations. Those reports include the required supplementary information concerning the reconciliation of claims liabilities by type of contract and ten-year claim development information. Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 15 - RISK MANAGEMENT (continued)

WORKERS' COMPENSATION INSURANCE

The Lottery carries workers compensation insurance coverage through a privatized business entity, BrickStreet Mutual Insurance Company (BrickStreet), established January 1, 2006, and named the administrator of former state workers' compensation fund activities. BrickStreet is paid a monthly administrative fee and rated premium to provide compensations for injuries sustained in the course of employment. The monthly administrative fee for the Lottery has been set at levels consistent with prior year payments and any rate or premium increases will be established on an experience rated basis.

The Lottery participates in the BrickStreet experience rated pool, which is rate adjusted on a quarterly basis. The BrickStreet risk pool retains all risk related to the compensation of injured employees under the program in exchange for the premiums paid.

PUBLIC EMPLOYEES' INSURANCE AGENCY (PEIA)

The Lottery participates in the Public Employees' Insurance Agency which provides an employee benefit insurance program to employees. PEIA was established by the State of West Virginia for State agencies, institutions of higher education, Boards of Education and component units of the State. In addition, local governmental entities and certain charitable and public service organizations may request to be covered by PEIA. PEIA provides a base employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Underwriting and rate setting policies are established by PEIA. The cost of all coverage as determined by PEIA shall be paid by the participants. Premiums are established by PEIA and are paid monthly, and are dependent upon, among other things, coverage required, number of dependents, state vs. non state employees and active employees vs. retired employees and level of compensation. Coverage under these programs is limited to \$1 million lifetime for health and \$10,000 of life insurance coverage.

The PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has fully transferred the risks of coverage to the Managed Care Organization (MCO) Plan to the plan provider, and has transferred the risks of the life insurance coverage to a third party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 205,000 individuals, including participants and dependents.

BOARD OF RISK AND INSURANCE MANAGEMENT (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a common risk pool currently operating as a common risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Fund underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage, through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

**WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS**

-Unaudited-

NOTE 16- OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Lottery participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund (Trust), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, South East, Suite 2, Charleston, West Virginia, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The ARC rate is \$961 and \$903 per employee per month for the years ending June 30, 2012 and 2011 respectively. Through June 30, 2011 and 2010, the Lottery has paid premiums of \$294,952 and \$226,212. As of June 30, 2011 and 2010, the Lottery has recorded a liability of \$2,749,868 and \$1,484,546 on its balance sheet for OPEB.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor



Budget Division
Building 1, Room 314-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590

304-347-4870

Memorandum

To: Honorable Chairmen and Members of the Joint Committee on
Government and Finance

From: Ellen Clark, C.P.A. *EC*
Director Budget Division
Legislative Auditor's Office

Date: November 8, 2011

Re: Status of General Revenue Fund and State Road Fund as of
October 31, 2011

We have reviewed the cash revenue flows of the West Virginia general revenue fund for the month ending October 31 of fiscal year 2011-2012. The status of the fund collections are as follows:

The net collections were ahead of the estimate for the month ending October 31, 2011. Total collections were \$69.3 million over the estimate.

Personal Income Tax collections were \$ 7.5 million over the estimate for the fiscal year.

Consumer sales and use tax collections were \$ 8 million over the estimate as of October 31, 2011.

Severance tax collections were \$ 28 million over the estimate as of October 31, 2011.

Corporate Income and Business Franchise Tax collections were \$30 million over the estimate for the fiscal year.

State Road Fund

The state road fund collections were \$ 10.0 million over the estimate for the end of the end of the fourth month fiscal year 2011-2012.

Rainy Day and Personal Income Tax Reserve

Revenue Shortfall Reserve Fund A (Rainy Day Fund) had a cash balance of \$ 499,569,109.66 as of October 31, 2011.

| | |
|--|------------------------------------|
| Balance July 1, 2011 | 342,320,537.63 |
| Cash flow loan to General Revenue on July 1, 2011. To be repaid 90 days. This is a normal occurrence in July due to cash flow demands. Repaid September | - 60,000,000.00 + 60,000,000.00 |
| Senate Bill 1001 July 2011 special session WV Code 11B-2-20 transfers | 150,667,825.51 |
| Earnings | 6,580,746.52 |
| Balance October 31, 2011 | 499,569,109.66 |

Revenue Shortfall Reserve Fund B (Tobacco Settlement Monies) had a cash balance of \$ 308,026,035.95 as of October 31, 2011.

| | |
|--------------------------|----------------|
| Balance July 1, 2011 | 316,806,577.84 |
| Earnings | (8,780,541.89) |
| Other transfers | 0 |
| Balance October 31, 2011 | 308,026,035.95 |

The Special Income Tax Reserve Fund had a cash balance of \$45,019,319.21 as of October 31, 2011.

| | |
|--------------------------|---------------|
| Balance July 1, 2011 | 45,019,319.21 |
| Revenues | -0- |
| Balance October 31, 2011 | 45,019,319.21 |

GENERAL REVENUE FUND FY 2011-2012

By Source and by Month
 Monthly Revenue Estimates
 as of October 31, 2011 WVFIMS

| | MONTH | NET | FINAL | YTD | NET | YEARLY OVER |
|---------------------------------|--------------------|--------------------|-------------------|----------------------|----------------------|-------------------|
| | ESTIMATES | MONTH | UNDER ESTIMATES | ESTIMATES | YTD | UNDER ESTIMATES |
| | | COLLECTIONS | VS ACTUAL | | COLLECTIONS | VS ACTUAL |
| | | | COLLECTIONS | | | COLLECTIONS |
| Personal Income Tax | 118,700,000 | 123,742,229 | 5,042,229 | 535,100,000 | 542,694,148 | 7,594,148 |
| Consumer Sales Tax & Use Tax | 98,600,000 | 103,753,478 | 5,153,478 | 399,800,000 | 407,848,737 | 8,048,737 |
| Severance Tax | 31,700,000 | 45,299,100 | 13,599,100 | 134,700,000 | 163,601,683 | 28,901,683 |
| HB 102 - Lottery Transfers | 8,875,000 | 8,875,000 | 0 | 58,053,000 | 58,053,444 | 444 |
| Corp Income /Business Franchise | 4,500,000 | 6,955,088 | 2,455,088 | 50,000,000 | 80,751,019 | 30,751,019 |
| Tobacco Products Tax | 9,390,000 | 8,774,433 | -615,567 | 39,140,000 | 36,636,516 | -2,503,484 |
| Business and Occupation | 6,100,000 | 9,412,798 | 3,312,798 | 33,000,000 | 35,634,671 | 2,634,671 |
| Insurance Tax | 26,700,000 | 25,497,028 | -1,202,972 | 52,600,000 | 53,142,026 | 542,026 |
| Interest Income | 2,000,000 | -415,500 | -2,415,500 | 8,000,000 | -559,248 | -8,559,248 |
| Liquor Profit Transfers | 1,150,000 | 1,192,404 | 42,404 | 4,400,000 | 4,827,428 | 427,428 |
| Departmental Collections | 970,000 | 859,795 | -110,205 | 3,830,000 | 4,055,439 | 225,439 |
| Property Transfer Tax | 710,000 | 730,044 | 20,044 | 3,140,000 | 2,930,005 | -209,995 |
| Property Tax | 690,000 | 783,894 | 93,894 | 3,015,000 | 3,049,545 | 34,545 |
| Beer Tax and Licenses | 690,000 | 641,450 | -48,550 | 2,910,000 | 2,874,810 | -35,190 |
| Miscellaneous Receipts | 250,000 | 289,638 | 39,638 | 1,030,000 | 935,121 | -94,879 |
| Business Fran Registration Fees | 30,000 | 100,483 | 70,483 | 470,000 | 676,152 | 206,152 |
| Miscellaneous Transfers | 20,000 | 0 | -20,000 | 310,000 | 528,487 | 218,487 |
| Senior Tax Credit Reimbur Lot | 100,000 | 197,423 | 97,423 | 300,000 | 964,143 | 664,143 |
| Liquor License Renewal | 71,000 | 70,724 | -276 | 184,000 | 162,502 | -21,498 |
| Racing Fees | 0 | 0 | 0 | 0 | 0 | 0 |
| Charter Tax | 0 | 6,759 | 6,759 | 0 | 28,231 | 28,231 |
| Telecommunications Tax | 0 | 15,299 | 15,299 | 0 | 33,634 | 33,634 |
| Estate and Inheritance Tax | 0 | 15,937 | 15,937 | 0 | 15,937 | 15,937 |
| Video Lottery Transfers | 0 | 45,297 | 45,297 | 0 | 431,769 | 431,769 |
| Cash Flow Transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTALS | 311,246,000 | 336,842,799 | 25,596,799 | 1,329,982,000 | 1,399,316,198 | 69,334,198 |
| Percent of Estimates | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTALS | 311,246,000 | 336,842,799 | 25,596,799 | 1,329,982,000 | 1,399,316,198 | 69,334,198 |
| Percent of Estimates | | 108.22% | | | 105.21% | |
| Collections this day | | 64,883,651 | | | | |

Prepared by Legislative Auditor's Office, Budget Division

STATE ROAD FUND FY 2011-2012
 By Source and by Month
 Monthly Revenue Estimates
 as of October 31, 2011 WVFIMS

FINAL

| | MONTH ESTIMATES | NET MONTH COLLECTIONS | MONTHLY OVER UNDER ESTIMATES VS ACTUAL COLLECTIONS | YTD ESTIMATES | NET YTD COLLECTIONS | YEARLY OVER UNDER ESTIMATES VS ACTUAL COLLECTIONS |
|---------------------------------|--------------------|-----------------------------|---|--------------------|---------------------------|--|
| Gasoline & Motor Carrier Rd Tax | 32,500,000 | 35,763,858 | 3,263,858 | 133,600,000 | 137,291,236 | 3,691,236 |
| Privilege Tax | 13,223,000 | 14,845,379 | 1,622,379 | 55,812,000 | 63,443,471 | 7,631,471 |
| Licenses & Registration | 6,509,000 | 6,127,162 | -381,838 | 29,696,000 | 28,451,648 | -1,244,352 |
| Highway Litter Control | 123,000 | 98,553 | -24,447 | 560,000 | 553,953 | -6,047 |
| TOTALS | 52,355,000 | 56,834,953 | 4,479,953 | 219,668,000 | 229,740,308 | 10,072,308 |
| | | | | | | |
| Percent of Estimates | | 108.56% | | | 104.59% | |
| | | | | | | |
| Collections this day | | 26,164,515 | | | | |

REVENUE SHORTFALL RESERVE FUND 7005, Part A AS OF October 1, 2011 : \$500,468,579.10

REVENUE SHORTFALL RESERVE FUND 7006, Part B AS OF October 1, 2011 : \$314,240,229.70

PERSONAL INCOME TAX REFUND RESERVE FUND AS OF October 1, 2011: \$45,019,319.21

Prepared by Legislative Auditor's Office, Budget Division

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor



Budget Division
Building 1, Room 314-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590

304-347-4870

To: Honorable Chairmen and Members of the Joint Committee on
Government and Finance

From: Ellen Clark, C.P.A. *EC*
Director Budget Division
Legislative Auditor's Office

Date: November 7, 2011

Re: West Virginia Unemployment Compensation Trust Fund

We have reviewed the September 30, 2011 monthly report of the Unemployment Compensation Trust Fund we received from WorkForce West Virginia.

For July 1, 2011 to September 30, 2011 of fiscal year 2011-2012, the trust fund cash flow was as follows:

| | |
|---|-------------------|
| Trust Fund Beginning Cash Balance 7-1-2011 | \$101,837,094.21 |
| Receipts July 1, 2011 thru June 30, 2012 | \$ 101,005,603.21 |
| Disbursements July 1, 2011 thru June 30, 2012 | \$ 91,218,983.00 |
| Balance September 30, 2011 | \$ 111,623,714.33 |

ITEMS OF NOTE:

Regular benefits paid for July - September 2011 were \$9.1 million less than July - September 2010.

Federal emergency benefits totaled \$ 36.3million for the July -

September 2011; for July - September 2010 federal emergency benefits totaled \$ 51.6 million.

Total disbursements were \$ 34.2 million less in July - September 2011 than the preceding July - September 2010.

Receipts for July - September 2011 were \$ 22.7 million less than in July - September 2010. Overall ending trust fund balance was \$ 17.7 million higher on September 30, 2011 than on September 30, 2010.

West Virginia's unemployment rate for the month of September 2011 was 7.9 percent. National unadjusted employment rate was 8.8 percent.

Seasonally adjusted unemployment rates were 8.2 percent for West Virginia and 9.1 percent nationally.

Since September 2010 employment has increased by 2,500. Employment gains were as follows: 2,500 in educational and health services; 1,500 in trade, transportation and utilities; 2,200 in professional and business services; 1,300 in mining and logging; 100 in manufacturing; 400 in information and 400 in other services. Declines were as follows: 3,200 in government; 500 in financial activities; 1,500 in leisure and hospitality; 700 in construction.

**MONTHLY STATUS REPORT FOR THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE
FOR THREE MONTHS STARTING JULY 2010 AND JULY 2011**

| | <u>JULY 2010</u> | <u>AUGUST 2010</u> | <u>SEPTEMBER 2010</u> | <u>JULY 2011</u> | <u>AUGUST 2011</u> | <u>SEPTEMBER 2011</u> | <u>THREE MONTH TOTAL VARIANCE *</u> |
|--|-------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|---|
| Balance Forward | <u>\$95,528,960.38</u> | <u>\$94,869,457.65</u> | <u>\$105,500,318.34</u> | <u>\$101,837,094.21</u> | <u>\$99,888,923.86</u> | <u>\$121,966,907.20</u> | <u>\$27,794,188.90</u> |
| Add Receipts: | | | | | | | |
| 1. Bond Assessment | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0.00 | \$0 00 |
| 2. Regular Contributions: | \$18,829,788.76 | \$32,021,123.12 | \$1,187,504.82 | \$17,384,591.01 | \$36,756,153.43 | \$1,548,582.73 | \$3,650,910.47 |
| 3. Federal Emergency Benefits (EUC08) | \$11,525,604.92 | \$24,859,782.34 | \$15,331,176.74 | \$11,425,173.66 | \$13,878,978.82 | \$11,033,893.13 | (\$15,378,518.39) |
| 4. Federal Share Extended Benefits (EB) | \$56,940.66 | \$4,044,943.24 | \$3,300,647.00 | \$1,837,503.73 | \$2,248,800.96 | \$2,062,813.32 | (\$1,253,412.89) |
| 5. Temp Federal Additional Comp (FAC) | \$2,610,961.00 | \$4,181,782.00 | \$2,675,575.00 | \$1,172.96 | \$436.95 | \$1,180.90 | (\$9,465,527.19) |
| 6. UCFE (Federal Agencies) | \$120,956.05 | \$207,850.42 | \$172,011.15 | \$252,811.15 | \$296,657.09 | \$192,011.43 | \$240,662.05 |
| 7. Special Administrative Transfer ** | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0.00 | \$0 00 |
| 8. Reed Act Funds | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0.00 | \$0 00 |
| 9. UC Modernization Incentive | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0.00 | \$0 00 |
| 10. Treasury Interest Credits | \$0 00 | \$0 00 | \$991,813.88 | \$0 00 | \$0 00 | \$843,528.97 | (\$148,284.91) |
| 11. UCX (Military Agencies) | \$430,957.73 | \$682,450.43 | \$491,291.37 | \$373,310.92 | \$465,665.00 | \$402,337.05 | (\$363,386.56) |
| 12. WV Insurance Committee-Senate Bill 246 | \$0.00 | \$0 00 | \$0 00 | \$0 00 | \$0 00 | \$0.00 | \$0 00 |
| 13. CMA Receipts | \$0.00 | \$0 00 | \$1,903.00 | \$0.00 | \$0 00 | \$0.00 | (\$1,903.00) |
| Total Monthly Receipts | <u>\$33,575,209.12</u> | <u>\$65,997,931.55</u> | <u>\$24,151,922.96</u> | <u>\$31,274,563.43</u> | <u>\$53,646,692.25</u> | <u>\$16,084,347.53</u> | <u>(\$22,719,460.42)</u> |
| Less Disbursements: | | | | | | | |
| Debt Bond Repayment | (Retired) | (Retired) | (Retired) | (Retired) | (Retired) | (Retired) | (Retired) |
| Regular Benefits: | \$18,709,953.79 | \$21,480,113.22 | \$14,346,580.77 | \$16,757,476.54 | \$16,139,111.91 | \$12,515,104.04 | (\$9,124,955.29) |
| Federal Emergency Benefits (EUC08) | \$12,169,097.97 | \$24,488,300.27 | \$14,969,694.76 | \$13,046,903.66 | \$12,312,182.79 | \$10,953,487.16 | (\$15,314,519.39) |
| Federal Share Extended Benefits (EB) | \$121,697.71 | \$4,229,090.47 | \$3,108,376.23 | \$1,821,306.63 | \$2,296,958.44 | \$2,019,293.16 | (\$1,321,606.18) |
| Emergency Benefits (TEUC) | (\$798.54) | (\$4,819.72) | (\$205.00) | (\$200.00) | (\$1,855.17) | (\$514.00) | \$3,254.09 |
| Temp Federal Additional Comp (FAC) | \$2,662,045.00 | \$4,186,132.00 | \$2,600,980.00 | \$1,220.96 | \$388.95 | \$1,180.90 | (\$9,446,366.19) |
| UCFE (Federal Workers) Benefits | \$119,873.52 | \$189,447.02 | \$148,842.15 | \$209,985.23 | \$220,840.93 | \$151,970.16 | \$124,833.63 |
| UCX (Military Workers) Benefits | \$443,927.49 | \$637,486.33 | \$461,394.71 | \$415,550.42 | \$383,246.43 | \$358,018.98 | (\$385,992.70) |
| Reed Act Funds | \$3,366.83 | \$146,865.80 | \$167,138.82 | \$293,418.07 | \$185,230.19 | \$429,000.00 | \$590,276.81 |
| Special Administrative Transfer** | \$5,548.08 | \$14,455.47 | \$16,977.70 | \$677,072.27 | \$32,604.44 | \$0.00 | \$672,695.46 |
| Total Monthly Disbursements | <u>\$34,234,711.85</u> | <u>\$55,367,070.86</u> | <u>\$35,819,780.14</u> | <u>\$33,222,733.78</u> | <u>\$31,568,708.91</u> | <u>\$26,427,540.40</u> | <u>(\$34,202,579.76)</u> |
| Trust Fund Balance | <u>\$94,869,457.65</u> | <u>\$105,500,318.34</u> | <u>\$93,832,461.16</u> | <u>\$99,888,923.86</u> | <u>\$121,966,907.20</u> | <u>\$111,623,714.33</u> | <u>\$39,277,308.24</u> |

* Three month total variance column is the difference between the sum of the previous year's three months data for each category and the current year's three months data. The purpose of the report is to show significant changes in receipts, disbursements, or balances.

**The Assistance for Unemployed Workers and Struggling Families Act, Title II of Division B of Public Law No. 111-5, enacted February 17, 2009, provided a special administrative transfer to states' accounts of \$500 million to be used for certain administrative purposes. On February 27, 2009, the U.S. Treasury distributed West Virginia's amount of \$2,369,759 to the Unemployment Insurance Trust Fund. Attachment IV to the Unemployment Insurance Program Letter No. 14-09 issued by the U.S. Department of Labor on February 26, 2009 specifies the permissible uses of the administrative transfer. The special administrative transfer is not available for the payment of Unemployment Compensation (UC) benefits; therefore the Trust Fund Balance must be reduced by the Special Administrative Transfer on line 7 to obtain the balance available for UC benefits.

UC TRUST FUND PROJECTIONS - 2011
 November 8, 2011

| Month | Revenues | Benefits | Trust Fund Balance |
|----------------------|--------------------|--------------------|--------------------|
| 2010 | | | |
| Balance 1/1/2010 | | | 123,606,000 |
| January | 5,469,000 | 31,578,000 | 97,497,000 |
| February | 16,218,000 | 27,799,000 | 85,916,000 |
| March | 5,178,000 | 30,188,000 | 60,906,000 |
| April | 28,658,000 | 22,299,000 | 67,265,000 |
| May | 64,118,000 | 22,991,000 | 108,392,000 |
| June | 6,529,000 | 19,393,000 | 95,528,000 |
| July | 18,050,000 | 18,709,000 | 94,869,000 |
| August | 32,111,000 | 21,480,000 | 105,500,000 |
| September | 2,678,000 | 14,346,000 | 93,832,000 |
| October | 9,868,000 | 17,733,000 | 85,967,000 |
| November | 22,516,000 | 15,218,000 | 93,265,000 |
| December | 2,090,000 | 18,454,000 | 76,901,000 |
| Totals - 2010 | 213,483,000 | 260,188,000 | 76,901,000 |
| 2011 | | | |
| January | 7,672,000 | 25,494,000 | 59,079,000 |
| February | 17,990,000 | 21,179,000 | 55,890,000 |
| March | 4,193,000 | 21,185,000 | 38,898,000 |
| April | 27,569,000 | 17,361,000 | 49,106,000 |
| May | 82,582,000 | 16,967,000 | 114,721,000 |
| June | 3,556,000 | 16,440,000 | 101,837,000 |
| July | 14,808,000 | 16,757,000 | 99,888,000 |
| August | 38,217,000 | 16,139,000 | 121,966,000 |
| September | 2,172,000 | 12,515,000 | 111,623,000 |
| October | 12,428,000 | 14,286,000 | 109,765,000 |
| November | 25,175,000 | 11,979,000 | 122,961,000 |
| December | 2,336,000 | 14,526,000 | 110,771,000 |
| Totals - 2011 | 238,698,000 | 204,828,000 | 110,771,000 |

Revenues for the first ten months of CY 2011 increased by 11.81% over the first ten months of CY 2010

Benefits for the first ten months of CY 2011 decreased by 21.28% over the first ten months of CY 2010

Executive Division
 112 California Avenue
 Charleston, WV 25305

An agency of the Department of Commerce

An equal opportunity employer/program and auxiliary aids are available upon request to individuals with disabilities

www.workforcewv.org



Financial Statements

September 2011

West Virginia Legislative Interims
November 2011

West Virginia Public Employees Insurance Agency
For the Three Months Ending September 30, 2011
(Dollars in Thousands)

| | (\$ 000 's) | | PRIOR YR | | BUDGET VARIANCE | | PRIOR YR VARIANCE | |
|---|------------------|------------------|------------------|--|------------------|---------------|-------------------|---------------|
| | ACTUAL | BUDGET | | | \$ | % | \$ | % |
| PREMIUM REVENUE | | | | | | | | |
| Health Insurance - State Gov. - Employers | \$114,470 | \$114,120 | \$113,646 | | \$350 | 0% | \$824 | 1% |
| Health Insurance - State Gov. - Employees | 30,348 | 29,028 | 28,819 | | \$1,320 | 5% | \$1,529 | 5% |
| Health Insurance - Local Gov. - All | 26,239 | 25,712 | 25,654 | | \$585 | 2% | \$585 | 2% |
| Life Insurance | 1,054 | 1,391 | 1,322 | | (\$337) | (24%) | (\$268) | (20%) |
| Direct Transfer | 875 | 875 | 875 | | \$0 | 0% | \$0 | 0% |
| Interest and Investment Income | (1,772) | 4,263 | 5,943 | | (\$6,035) | (142%) | (\$7,715) | (130%) |
| Other Premium Revenue | 336 | 416 | 424 | | (\$80) | (19%) | (\$88) | (21%) |
| Administrative Fees, Net of Refunds | 1,140 | 1,142 | 1,128 | | (\$2) | (0%) | \$12 | 1% |
| TOTAL REVENUE | 172,690 | 176,947 | 177,811 | | (\$4,257) | (2%) | (\$5,121) | (3%) |
| OPERATING EXPENSES | | | | | | | | |
| Claims Expense - Medical | 94,610 | 87,288 | 75,006 | | (7,322) | (8%) | (\$19,604) | (26%) |
| Claims Expense - Drugs | 26,114 | 28,594 | 24,882 | | 2,480 | 9% | (\$1,232) | (5%) |
| Payments to Managed Care Org. | 9,537 | 9,710 | 9,069 | | 173 | 2% | (\$468) | (5%) |
| Administrative Service Fees | 3,503 | 4,401 | 4,262 | | 898 | 20% | \$759 | 18% |
| Life Insurance Expense | 1,056 | 1,391 | 1,318 | | 335 | 24% | \$262 | 20% |
| Wellness and Disease Management | 362 | 388 | 471 | | 26 | 7% | \$109 | 23% |
| Other Operating Expenses | 1,332 | 1,598 | 1,470 | | 266 | 17% | \$138 | 9% |
| WV RHBT Pay Go Premiums | 37,771 | 37,762 | 36,074 | | (9) | (0%) | (\$1,697) | (5%) |
| TOTAL EXPENSES | 174,285 | 171,132 | 152,552 | | (3,153) | (2%) | (\$21,733) | (14%) |
| (1,595) | 5,815 | 25,259 | | | (7,410) | (127%) | (26,854) | (106%) |
| Total Net Assets, Beginning of Period | 168,327 | 168,327 | 173,604 | | 0 | 0% | (5,277) | (3%) |
| TOTAL NET ASSETS, END OF PERIOD | \$166,732 | \$174,142 | \$198,863 | | (\$7,410) | (4%) | (\$32,131) | (16%) |

West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET

DRAFT

| | September 30 | |
|---|----------------|------------|
| | 2011 | 2010 |
| | (in thousands) | |
| ASSETS | | |
| Short Term Assets | | |
| Cash and Equivalents | \$ 23,801 | \$ 25,564 |
| Advance Deposit with Carrier/Trustee | 198,283 | 189,094 |
| Receivables - Net | 954 | 1,174 |
| Prepaid Insurance | 3,071 | 3,201 |
| Total Short Term Assets | 226,109 | 219,033 |
| Long Term Assets | | |
| Investments | 129,769 | 126,379 |
| Total Long Term Assets | 129,769 | 126,379 |
| TOTAL ASSETS | 355,878 | 345,412 |
| LIABILITIES | | |
| Short Term Liabilities | | |
| Accounts payable | 1,154 | 905 |
| Claims Payable | 124 | 36 |
| OPEB Liability | 182 | 181 |
| Agents Commissions Payable | 325 | 1,538 |
| Unearned Revenue | 6,794 | 7,097 |
| Current Estimated Claim Reserve | 46,638 | 44,765 |
| Total Short Term Liabilities | 55,217 | 54,522 |
| Long Term Liabilities | | |
| Compensated Absences | 75 | 66 |
| Estimated Noncurrent Claim Reserve | 84,064 | 89,745 |
| Total Long Term Liabilities | 84,139 | 89,811 |
| TOTAL LIABILITIES | 139,356 | 144,333 |
| Prior Year Net Assets | 219,828 | 192,207 |
| Current Year Earnings | (3,306) | 8,872 |
| TOTAL NET ASSETS | 216,522 | 201,079 |
| TOTAL LIABILITIES AND RETAINED EARNINGS | \$ 355,878 | \$ 345,412 |

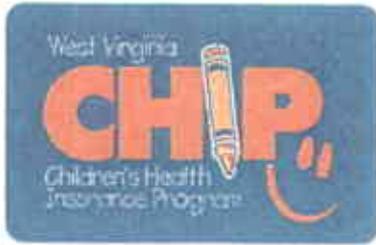
DRAFT - Unaudited - Management Purposes Only

West Virginia Board of Risk and Insurance Management
UNAUDITED INCOME STATEMENT
 For the three months ending

DRAFT

| | September 30 | |
|----------------------------------|----------------|-----------|
| | 2011 | 2010 |
| | (in thousands) | |
| Operating Revenues | | |
| Premium Revenues | \$ 13,094 | \$ 13,457 |
| Less - Excess Insurance | (1,363) | (1,516) |
| Total Operating Revenues | 11,731 | 11,941 |
| Operating Expenses | | |
| Claims Expense | 13,827 | 11,371 |
| Property & MS Claims Expense | 1,499 | 856 |
| Personal Services | 367 | 353 |
| General & Administrative Expense | 652 | 660 |
| Total Operating Expenses | 16,345 | 13,240 |
| Operating Income (Loss) | (4,614) | (1,299) |
| Nonoperating Revenues | | |
| Fees and Assessments | 31 | 7 |
| Investment Income | 1,277 | 10,164 |
| Total Nonoperating Revenues | 1,308 | 10,171 |
| Net Income | (3,306) | 8,872 |

DRAFT - Unaudited - Management Purposes Only

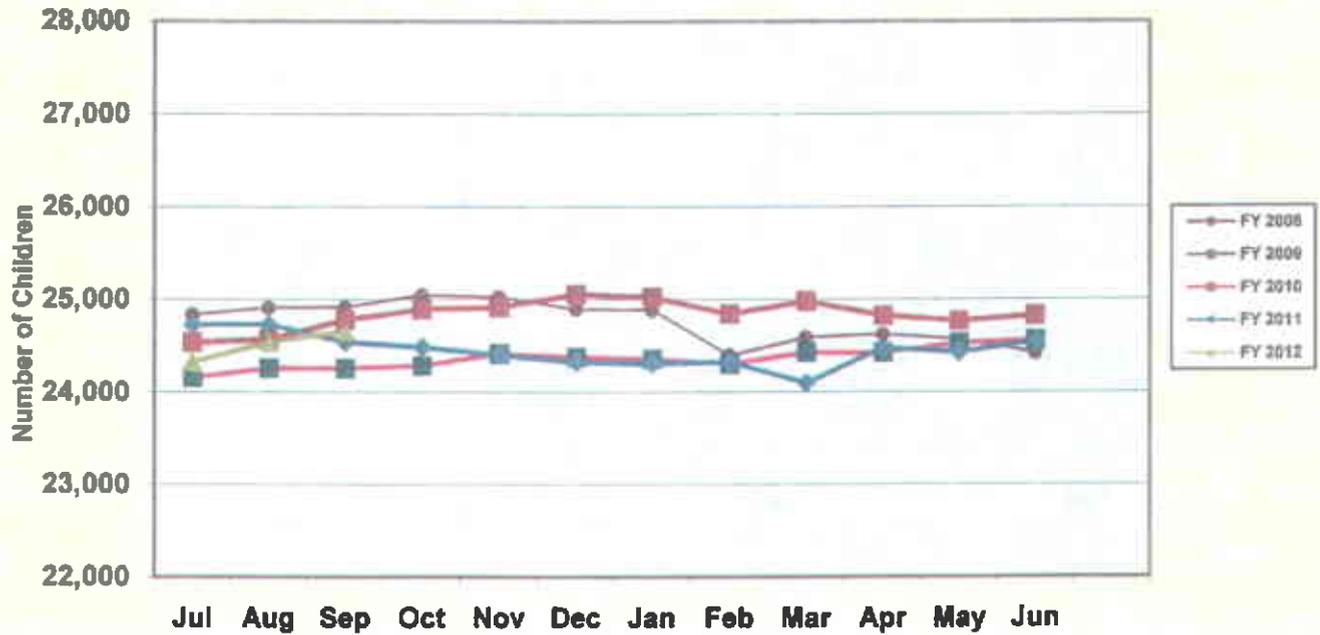


West Virginia Children's Health Insurance Program
2 Hale Street
Suite 101
Charleston, WV 25301
304-558-2732 voice / 304-558-2741 fax
Helpline 877-982-2447
www.chip.wv.gov

Joint Committee on Government and Finance Report

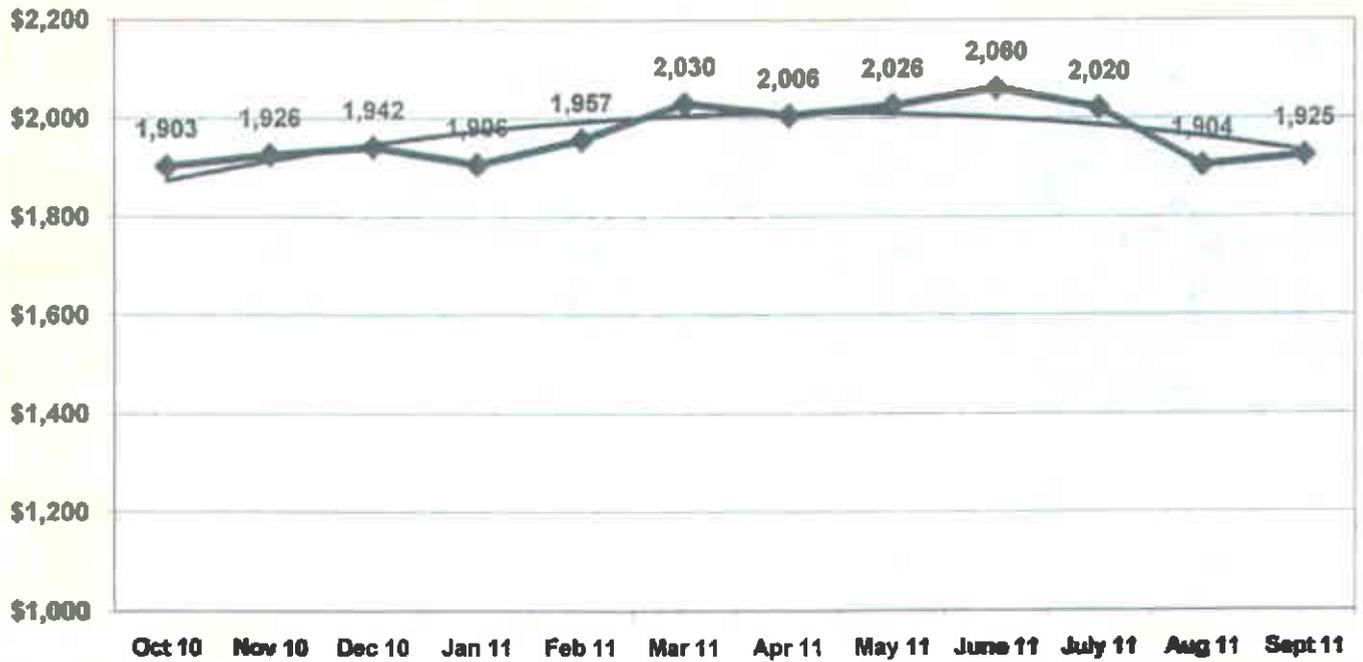
November 2011

WV CHIP Enrollment



September 30th Enrollment 24,652

Annualized Health Care Expenditures (Cost per Child)



West Virginia Children's Health Insurance Program
Comparative Balance Sheet
September 2011 and 2010
(Accrual Basis)

| | September 30, 2011 | September 30, 2010 | Variance | |
|--|----------------------------|----------------------------|---------------------------|-------------------|
| Assets: | | | | |
| Cash & Cash Equivalents | \$12,005,161 | \$12,237,966 | (\$232,805) | -2% |
| Due From Federal Government | \$5,693,128 | \$3,291,477 | \$2,401,651 | 73% |
| Due From Other Funds | \$842,492 | \$730,858 | \$111,634 | 15% |
| Accrued Interest Receivable | \$5,250 | \$22,180 | (\$16,930) | -76% |
| Fixed Assets, at Historical Cost | <u>\$96,031</u> | <u>\$68,563</u> | <u>\$27,468</u> | <u>40%</u> |
| Total Assets | <u>\$18,642,062</u> | <u>\$16,351,044</u> | <u>\$2,291,018</u> | <u>14%</u> |
| Liabilities: | | | | |
| Due to Other Funds | \$288,090 | \$122,335 | \$165,755 | 135% |
| Deferred Revenue | \$1,936,743 | \$2,320,019 | (\$383,276) | -17% |
| Unpaid Insurance Claims Liability | <u>\$4,210,000</u> | <u>\$3,900,000</u> | <u>\$310,000</u> | <u>8%</u> |
| Total Liabilities | <u>\$6,434,833</u> | <u>\$6,342,354</u> | <u>\$92,479</u> | <u>1%</u> |
| Fund Equity | <u>\$12,207,229</u> | <u>\$10,008,690</u> | <u>\$2,198,539</u> | <u>22%</u> |
| Total Liabilities and Fund Equity | <u>\$18,642,062</u> | <u>\$16,351,044</u> | <u>\$2,291,018</u> | <u>14%</u> |

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

West Virginia Children's Health Insurance Program
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
For the Three Months Ending September 30, 2011 and September 30, 2010
(Modified Accrual Basis)

| | September 30, 2011 | September 30, 2010 | Variance | |
|---------------------------------------|--------------------------|--------------------------|-------------------------|-------------------|
| Revenues | | | | |
| Federal Grants | 10,430,633 | 10,459,280 | (28,647) | 0% |
| State Appropriations | 2,085,126 | 2,085,126 | 0 | 0% |
| Premium Revenues | 149,498 | 105,784 | 43,714 | 41% |
| Investment Income: | | | | |
| Investment Earnings | 54,562 | 57,326 | (2,764) | -5% |
| Unrealized Gain(loss) On Investments* | (60,709) | 79,189 | (139,878) | 100% |
| Total Investment Income | <u>(6,147)</u> | <u>136,495</u> | <u>(142,642)</u> | <u>-105%</u> |
| Total Revenues | <u>12,659,110</u> | <u>12,786,686</u> | <u>(127,576)</u> | <u>-1%</u> |
| Expenditures: | | | | |
| Claims: | | | | |
| Outpatient Services | 3,745,954 | 3,183,587 | 562,387 | 18% |
| Physicians & Surgical | 2,690,313 | 2,857,984 | (167,671) | -6% |
| Prescribed Drugs | 2,415,389 | 2,055,340 | 360,049 | 18% |
| Dental | 2,000,561 | 1,562,017 | 438,544 | 28% |
| Inpatient Hospital Services | 1,047,122 | 1,011,945 | 35,177 | 3% |
| Durable & Disposable Med. Equip. | 377,085 | 323,579 | 53,506 | 17% |
| Outpatient Mental Health | 308,731 | 321,503 | (12,772) | -4% |
| Vision | 240,275 | 243,937 | (3,662) | -2% |
| Inpatient Mental Health | 172,101 | 196,744 | (24,643) | -13% |
| Therapy | 121,120 | 140,531 | (19,411) | -14% |
| Medical Transportation | 73,819 | 129,318 | (55,499) | -43% |
| Other Services | 48,732 | 27,136 | 21,596 | 80% |
| Less: Collections** | <u>(67,828)</u> | <u>(181,458)</u> | <u>113,630</u> | <u>-63%</u> |
| Total Claims | <u>13,173,374</u> | <u>11,872,143</u> | <u>1,301,231</u> | <u>11%</u> |
| General and Admin Expenses: | | | | |
| Salaries and Benefits | 129,627 | 131,695 | (2,068) | -2% |
| Program Administration | 436,764 | 684,100 | (247,336) | -36% |
| Eligibility | 66,000 | 104,273 | (38,273) | -37% |
| Outreach & Health Promotion | 257,643 | 55,864 | 201,779 | 361% |
| Current | <u>87,504</u> | <u>39,427</u> | <u>48,077</u> | <u>122%</u> |
| Total Administrative | <u>977,538</u> | <u>1,015,359</u> | <u>(37,821)</u> | <u>-4%</u> |
| Total Expenditures | <u>14,150,912</u> | <u>12,887,502</u> | <u>1,263,410</u> | <u>10%</u> |
| Excess of Revenues | | | | |
| Over (Under) Expenditures | (1,491,802) | (100,817) | (1,390,985) | 1380% |
| Fund Equity, Beginning | <u>13,994,558</u> | <u>10,109,506</u> | <u>3,885,052</u> | <u>38%</u> |
| Fund Equity, Ending | <u>12,502,756</u> | <u>10,008,689</u> | <u>2,494,067</u> | <u>25%</u> |

* Short Term Bond Fund Investment began in November 2009

** Collections are primarily drug rebates and subrogation

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

West Virginia Children's Health Insurance Program
 Budget to Actual Statement
 State Fiscal Year 2012
 for the Three Months Ended September 30, 2011

| | <u>Budgeted for Year</u> | <u>Year to Date Budgeted Amt</u> | <u>Year to Date Actual Amt</u> | <u>Year to Date Variance*</u> | | <u>Monthly Budgeted Amt</u> | <u>Sep-11</u> | <u>Actual Amt Aug-11</u> | <u>Actual Amt Jul-11</u> |
|------------------------|------------------------------|--------------------------------------|------------------------------------|-----------------------------------|-------|---------------------------------|---------------|------------------------------|------------------------------|
| Projected Cost | \$54,634,844 | \$13,658,711 | \$12,266,636 | \$1,392,075 | 10% | \$4,552,904 | \$5,574,959 | \$4,278,767 | \$2,412,909 |
| Premiums | 680,592 | \$170,148 | 149,498 | \$20,650 | -12% | \$56,716 | 49,388 | 55,019 | \$45,091 |
| Subrogation & Rebates | 731,381 | \$182,845 | 67,828 | 115,017 | -63% | \$60,948 | 42,172 | 14,005 | 11,651 |
| Net Benefit Cost | 53,222,871 | \$13,305,718 | \$12,049,310 | \$1,256,408 | 9% | \$4,435,239 | 5,483,399 | 4,209,743 | \$2,356,167 |
| Salaries & Benefits | \$580,500 | \$145,125 | \$129,626 | \$15,499 | 11% | \$48,375 | \$39,609 | \$39,909 | \$50,108 |
| Program Administration | 3,116,505 | \$779,126 | 452,398 | 326,728 | 42% | \$259,709 | 140,151 | 148,627 | 163,620 |
| Eligibility | 420,000 | \$105,000 | 0 | 105,000 | 100% | \$35,000 | 0 | 0 | 0 |
| Outreach | 300,000 | \$75,000 | 222,805 | (147,805) | -197% | \$25,000 | 7,865 | 214,809 | 131 |
| Current Expense | 160,000 | \$40,000 | 102,399 | (62,399) | -156% | \$13,333 | 22,049 | 46,479 | 33,871 |
| Total Admin Cost | \$4,577,005 | \$1,144,251 | \$907,228 | \$237,023 | 21% | \$381,417 | \$209,674 | \$449,824 | \$247,730 |
| Total Program Cost | \$57,799,876 | \$14,449,969 | \$12,956,538 | \$1,493,431 | 10% | \$4,816,656 | \$5,693,073 | \$4,659,567 | \$2,603,897 |
| Federal Share 80.83% | 46,719,640 | 11,679,910 | \$10,529,778 | 1,150,132 | 10% | 3,893,303 | 4,626,761 | 3,786,830 | 2,116,187 |
| State Share 19.17% | 11,080,236 | 2,770,059 | \$2,426,760 | 343,300 | 12% | 923,353 | 1,066,313 | 872,737 | 487,710 |
| Total Program Cost * | \$57,799,876 | \$14,449,969 | \$12,956,538 | \$1,493,431 | 10% | \$4,816,656 | \$5,693,073 | \$4,659,567 | \$2,603,897 |

* Positive percentages indicate favorable variances

** Budgeted Year Based on CCRC Actuary 6/30/2011 Report.

Unaudited - Cash Basis For Management Purposes Only - Unaudited

Memo for Calculations Above:

Notes:

1. Total budgeted for Year Program costs are CCRC Actuary's Base Line Scenerio dated 6/30/11 Final worksheet Net Paid Program Costs.

2. Federal Share for FFY 2012 is 80.83%. Federal Share for FFY 2011 (10/1/10 - 9/30/11) is set at 81.27%.

WVCHIP Enrollment Report

ATTACHMENT 1

October 2011

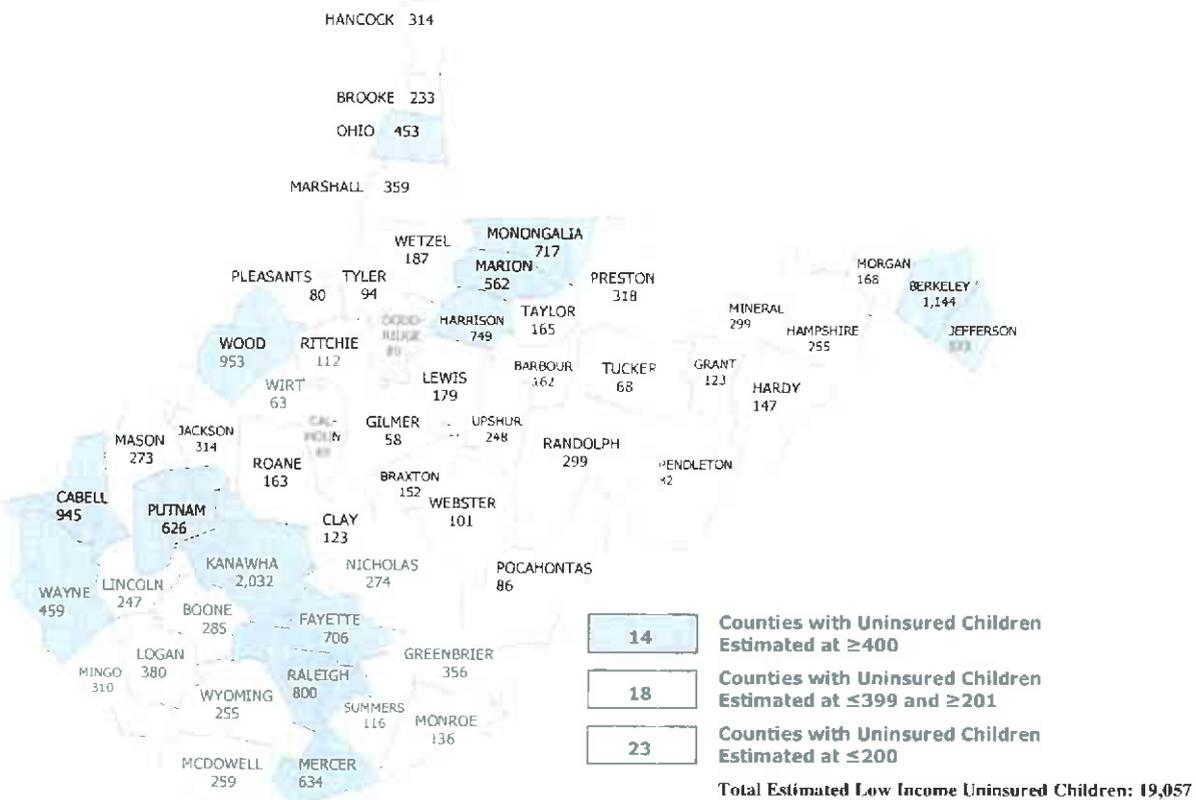
| County | County Pop. 2005 Est. (0-18 Yrs) | Total CHIP Enrollment Oct-11 | Total Medicaid Enrollment Oct-11 | Total CHIP/Medicaid Enrollment | CHIP/Medicaid Enrollment % of Population | 2009 | 2009 |
|------------|--|------------------------------------|--|--------------------------------------|--|-------------------------|-------------------------------------|
| | | | | | | Est. Uninsured 5% | # Children Uninsured Ranking* |
| Barbour | 3,248 | 254 | 1,533 | 1,787 | 55.0% | 162 | 38 |
| Berkeley | 22,882 | 1,262 | 7,599 | 8,861 | 38.7% | 1,144 | 2 |
| Boone | 5,706 | 309 | 2,557 | 2,866 | 50.2% | 285 | 24 |
| Braxton | 3,044 | 195 | 1,577 | 1,772 | 58.2% | 152 | 39 |
| Brooke | 4,658 | 262 | 1,490 | 1,752 | 37.6% | 233 | 32 |
| Cabell | 18,900 | 976 | 8,641 | 9,617 | 50.9% | 945 | 4 |
| Calhoun | 1,389 | 128 | 825 | 953 | 68.6% | 69 | 52 |
| Clay | 2,454 | 164 | 1,431 | 1,595 | 65.0% | 123 | 43 |
| Doddridge | 1,607 | 129 | 683 | 812 | 50.5% | 80 | 50 |
| Fayette | 9,692 | 798 | 4,659 | 5,457 | 56.3% | 485 | 12 |
| Gilmer | 1,154 | 77 | 576 | 653 | 56.6% | 58 | 55 |
| Grant | 2,463 | 177 | 992 | 1,169 | 47.5% | 123 | 42 |
| Greenbrier | 7,110 | 575 | 2,865 | 3,440 | 48.4% | 356 | 17 |
| Hampshire | 5,110 | 320 | 2,174 | 2,494 | 48.8% | 255 | 28 |
| Hancock | 6,270 | 387 | 2,508 | 2,895 | 46.2% | 314 | 20 |
| Hardy | 2,950 | 157 | 1,241 | 1,398 | 47.4% | 147 | 40 |
| Harrison | 14,973 | 959 | 5,656 | 6,615 | 44.2% | 749 | 6 |
| Jackson | 6,277 | 430 | 2,792 | 3,222 | 51.3% | 314 | 19 |
| Jefferson | 11,465 | 500 | 2,954 | 3,454 | 30.1% | 573 | 10 |
| Kanawha | 40,647 | 2,308 | 17,054 | 19,362 | 47.6% | 2,032 | 1 |
| Lewis | 3,577 | 280 | 1,758 | 2,038 | 57.0% | 179 | 34 |
| Lincoln | 4,945 | 345 | 2,699 | 3,044 | 61.6% | 247 | 31 |
| Logan | 7,610 | 504 | 3,874 | 4,378 | 57.5% | 380 | 15 |
| Marion | 11,245 | 692 | 4,328 | 5,020 | 44.6% | 562 | 11 |
| Marshall | 7,176 | 337 | 2,801 | 3,138 | 43.7% | 359 | 16 |
| Mason | 5,461 | 293 | 2,734 | 3,027 | 55.4% | 273 | 26 |
| McDowell | 5,170 | 329 | 3,174 | 3,503 | 67.8% | 259 | 27 |
| Mercer | 12,687 | 1,169 | 6,880 | 8,049 | 63.4% | 634 | 8 |
| Mineral | 5,973 | 317 | 1,920 | 2,237 | 37.5% | 299 | 22 |
| Mingo | 6,204 | 348 | 3,116 | 3,464 | 55.8% | 310 | 21 |
| Monongalia | 14,346 | 787 | 4,243 | 5,030 | 35.1% | 717 | 7 |
| Monroe | 2,728 | 234 | 1,026 | 1,260 | 46.2% | 136 | 41 |
| Morgan | 3,365 | 277 | 1,308 | 1,585 | 47.1% | 168 | 35 |
| Nicholas | 5,478 | 371 | 2,636 | 3,007 | 54.9% | 274 | 25 |
| Ohio | 9,068 | 498 | 3,101 | 3,599 | 39.7% | 453 | 14 |
| Pendleton | 1,632 | 120 | 516 | 636 | 39.0% | 82 | 49 |
| Pleasants | 1,593 | 108 | 563 | 671 | 42.1% | 80 | 51 |
| Pocahontas | 1,717 | 162 | 664 | 826 | 48.1% | 86 | 48 |
| Preston | 6,354 | 489 | 2,365 | 2,854 | 44.9% | 318 | 18 |
| Putnam | 12,522 | 782 | 3,391 | 4,173 | 33.3% | 626 | 9 |
| Raleigh | 15,992 | 1,280 | 7,381 | 8,661 | 54.2% | 800 | 5 |
| Randolph | 5,971 | 456 | 2,562 | 3,018 | 50.5% | 299 | 23 |
| Ritchie | 2,234 | 156 | 884 | 1,040 | 46.5% | 112 | 45 |
| Roane | 3,266 | 324 | 1,647 | 1,971 | 60.3% | 163 | 37 |
| Summers | 2,322 | 202 | 1,200 | 1,402 | 60.4% | 116 | 44 |
| Taylor | 3,307 | 228 | 1,385 | 1,613 | 48.8% | 165 | 36 |
| Tucker | 1,354 | 133 | 504 | 637 | 47.0% | 68 | 53 |
| Tyler | 1,887 | 118 | 749 | 867 | 46.0% | 94 | 47 |

WVCHIP Enrollment Report

ATTACHMENT 1

October 2011

| County | County Pop. 2005 Est. (0-18 Yrs) | Total CHIP Enrollment Oct-11 | Total Medicaid Enrollment Oct-11 | Total CHIP/Medicaid Enrollment | CHIP/Medicaid Enrollment % of Population | 2009 | 2009 |
|---------------|--|------------------------------------|--|--------------------------------------|--|-------------------------|-------------------------------------|
| | | | | | | Est. Uninsured 5% | # Children Uninsured Ranking* |
| Upshur | 4,956 | 368 | 2,316 | 2,684 | 54.2% | 248 | 30 |
| Wayne | 9,176 | 547 | 4,036 | 4,583 | 49.9% | 459 | 13 |
| Webster | 2,020 | 151 | 1,186 | 1,337 | 66.2% | 101 | 46 |
| Wetzel | 3,732 | 229 | 1,574 | 1,803 | 48.3% | 187 | 33 |
| Wirt | 1,268 | 96 | 628 | 724 | 57.1% | 63 | 54 |
| Wood | 19,063 | 1,170 | 8,486 | 9,656 | 50.7% | 953 | 3 |
| Wyoming | 5,092 | 397 | 2,492 | 2,889 | 56.7% | 255 | 29 |
| Totals | 382,490 | 24,664 | 159,934 | 184,598 | 48.3% | 19,125 | |



Note 1: The most recent estimate for all uninsured children statewide from the US Census Current Population Survey is 4.6%. It should be noted that even this five percent extrapolation to the county level could vary significantly from county to county depending on the availability of employee sponsored insurance. However, it remains our best gross estimate of the remaining uninsured children.

Note 2: It has been estimated that 7 of 10 uninsured children qualify or may have qualified for CHIP or Medicaid in the past, WVCHIP uses the 5% uninsured estimate as a target number for outreach.

Legislative Oversight Commission on
Health and Human Resources Accountability

NOVEMBER 2011

Department of Administration

State Children's Health Insurance Program
UPDATE



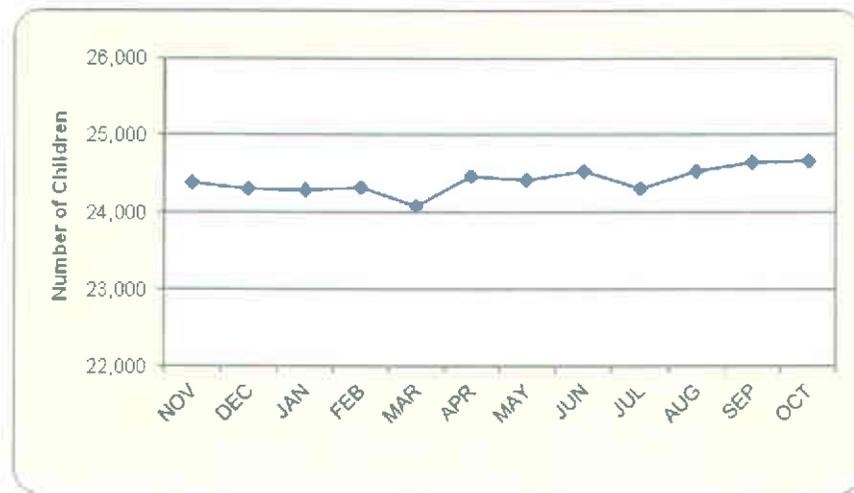
WV CHILDREN'S HEALTH INSURANCE AGENCY

REPORT FOR NOVEMBER 2011

I. Enrollment on October 31, 2011: 24,664

See Attachment 1 for enrollment by county.

Current 12-Month Enrollment Period: November 2010 through October 2011



Enrollee Totals: August 2011 to October 2011

| Month | Total | 1 Year Average | Total |
|-----------|-------|----------------|-------|
| August | 1,762 | Average | 1,835 |
| September | 1,943 | High | 2,173 |
| October | 1,629 | Low | 1,496 |

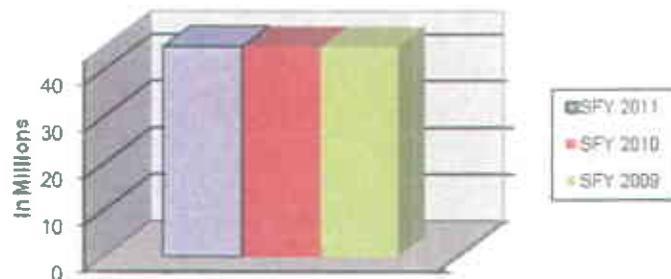
II. Financial Activity

Please see this month's financial statement at Attachment 2.

The average annualized claims cost per child for the month ended September 2011 was \$1,925.

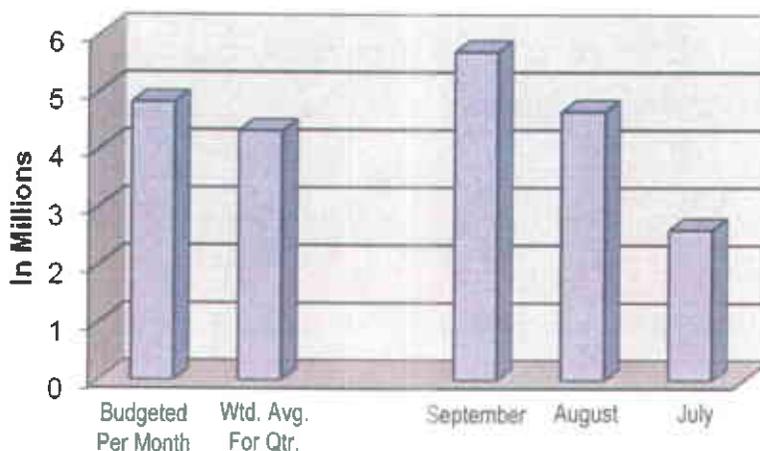
Annual Expenditures for a 3 Year Period: SFY 2008 – SFY 2010

| | SFY 2011 | FFP% 2011 | SFY 2010 | FFP% 2010 | SFY 2009 | FFP% 2009 |
|-------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| Federal | 42,531,719 | 81.27 | 38,675,336 | 81.83 | 37,550,029 | 81.61 |
| State | 9,631,322 | 18.73 | 8,618,874 | 18.17 | 8,417,193 | 18.39 |
| Total Costs | 52,163,041 | 100.00 | 47,294,210 | 100.00 | 45,967,222 | 100.00 |



Monthly Budgeted and Current 3 Month Period: July 2011 – September 2011

| | Budgeted Per Month | Wtd. Avg. For Qtr. | Actual | | |
|--------------|--------------------|--------------------|------------------|------------------|------------------|
| | | | September 2011 | August 2011 | July 2011 |
| Federal | 3,893,303 | 3,520,067 | 4,626,760 | 3,802,673 | 2,130,769 |
| State | 923,353 | 798,778 | 1,066,313 | 856,894 | 473,128 |
| Total | 4,816,656 | 4,318,846 | 5,693,073 | 4,659,567 | 2,603,897 |



III. Other Highlights

- ◆ By the end of October, over 200 children have been enrolled in the recently expanded CHIP Premium.

WVCHIP Enrollment Report

ATTACHMENT 1

October 2011

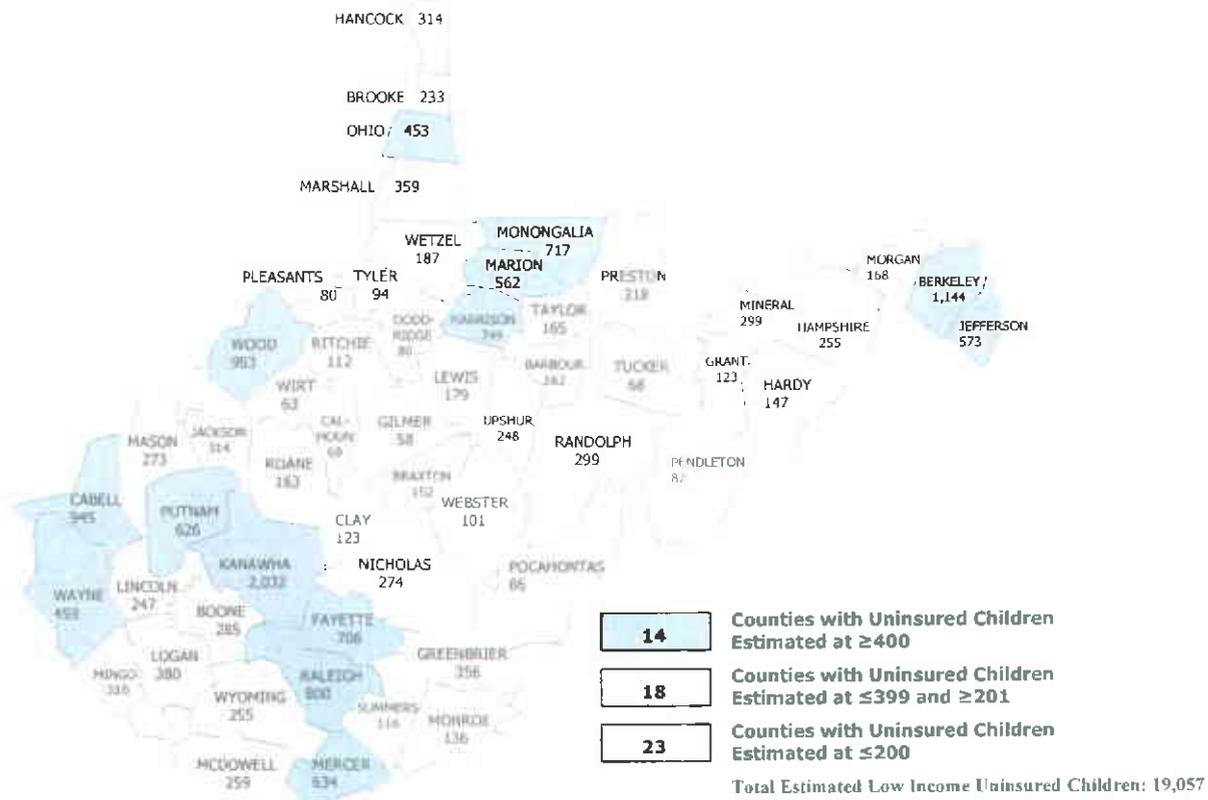
| County | County Pop 2005 Est (0-18 Yrs) | Total CHIP Enrollment Oct-11 | Total Medicaid Enrollment Oct-11 | Total CHIP/Medicaid Enrollment | CHIP/Medicaid Enrollment % of Population | 2009 | 2009 |
|------------|--------------------------------------|------------------------------------|--|--------------------------------------|--|-------------------------|-------------------------------------|
| | | | | | | Est. Uninsured 5% | # Children Uninsured Ranking* |
| Barbour | 3,248 | 254 | 1,533 | 1,787 | 55.0% | 162 | 38 |
| Berkeley | 22,882 | 1,262 | 7,599 | 8,861 | 38.7% | 1,144 | 2 |
| Boone | 5,706 | 309 | 2,557 | 2,866 | 50.2% | 285 | 24 |
| Braxton | 3,044 | 195 | 1,577 | 1,772 | 58.2% | 152 | 39 |
| Brooke | 4,658 | 262 | 1,490 | 1,752 | 37.6% | 233 | 32 |
| Cabell | 18,900 | 976 | 8,641 | 9,617 | 50.9% | 945 | 4 |
| Calhoun | 1,389 | 128 | 825 | 953 | 68.6% | 69 | 52 |
| Clay | 2,454 | 164 | 1,431 | 1,595 | 65.0% | 123 | 43 |
| Doddridge | 1,607 | 129 | 683 | 812 | 50.5% | 80 | 50 |
| Fayette | 9,692 | 798 | 4,659 | 5,457 | 56.3% | 485 | 12 |
| Gilmer | 1,154 | 77 | 576 | 653 | 56.6% | 58 | 55 |
| Grant | 2,463 | 177 | 992 | 1,169 | 47.5% | 123 | 42 |
| Greenbrier | 7,110 | 575 | 2,865 | 3,440 | 48.4% | 356 | 17 |
| Hampshire | 5,110 | 320 | 2,174 | 2,494 | 48.8% | 255 | 28 |
| Hancock | 6,270 | 387 | 2,508 | 2,895 | 46.2% | 314 | 20 |
| Hardy | 2,950 | 157 | 1,241 | 1,398 | 47.4% | 147 | 40 |
| Harrison | 14,973 | 959 | 5,656 | 6,615 | 44.2% | 749 | 6 |
| Jackson | 6,277 | 430 | 2,792 | 3,222 | 51.3% | 314 | 19 |
| Jefferson | 11,465 | 500 | 2,954 | 3,454 | 30.1% | 573 | 10 |
| Kanawha | 40,647 | 2,308 | 17,054 | 19,362 | 47.6% | 2,032 | 1 |
| Lewis | 3,577 | 280 | 1,758 | 2,038 | 57.0% | 179 | 34 |
| Lincoln | 4,945 | 345 | 2,699 | 3,044 | 61.6% | 247 | 31 |
| Logan | 7,610 | 504 | 3,874 | 4,378 | 57.5% | 380 | 15 |
| Marion | 11,245 | 692 | 4,328 | 5,020 | 44.6% | 562 | 11 |
| Marshall | 7,176 | 337 | 2,801 | 3,138 | 43.7% | 359 | 16 |
| Mason | 5,461 | 293 | 2,734 | 3,027 | 55.4% | 273 | 26 |
| McDowell | 5,170 | 329 | 3,174 | 3,503 | 67.8% | 259 | 27 |
| Mercer | 12,687 | 1,169 | 6,880 | 8,049 | 63.4% | 634 | 8 |
| Mineral | 5,973 | 317 | 1,920 | 2,237 | 37.5% | 299 | 22 |
| Mingo | 6,204 | 348 | 3,116 | 3,464 | 55.8% | 310 | 21 |
| Monongalia | 14,346 | 787 | 4,243 | 5,030 | 35.1% | 717 | 7 |
| Monroe | 2,728 | 234 | 1,026 | 1,260 | 46.2% | 136 | 41 |
| Morgan | 3,365 | 277 | 1,308 | 1,585 | 47.1% | 168 | 35 |
| Nicholas | 5,478 | 371 | 2,636 | 3,007 | 54.9% | 274 | 25 |
| Ohio | 9,068 | 498 | 3,101 | 3,599 | 39.7% | 453 | 14 |
| Pendleton | 1,632 | 120 | 516 | 636 | 39.0% | 82 | 49 |
| Pleasants | 1,593 | 108 | 563 | 671 | 42.1% | 80 | 51 |
| Pocahontas | 1,717 | 162 | 664 | 826 | 48.1% | 86 | 48 |
| Preston | 6,354 | 489 | 2,365 | 2,854 | 44.9% | 318 | 18 |
| Putnam | 12,522 | 782 | 3,391 | 4,173 | 33.3% | 626 | 9 |
| Raleigh | 15,992 | 1,280 | 7,381 | 8,661 | 54.2% | 800 | 5 |
| Randolph | 5,971 | 456 | 2,562 | 3,018 | 50.5% | 299 | 23 |
| Ritchie | 2,234 | 156 | 884 | 1,040 | 46.5% | 112 | 45 |
| Roane | 3,266 | 324 | 1,647 | 1,971 | 60.3% | 163 | 37 |
| Summers | 2,322 | 202 | 1,200 | 1,402 | 60.4% | 116 | 44 |
| Taylor | 3,307 | 228 | 1,385 | 1,613 | 48.8% | 165 | 36 |
| Tucker | 1,354 | 133 | 504 | 637 | 47.0% | 68 | 53 |
| Tyler | 1,887 | 118 | 749 | 867 | 46.0% | 94 | 47 |

WVCHIP Enrollment Report

ATTACHMENT 1

October 2011

| County | County Pop. 2005 Est. (0-18 Yrs) | Total CHIP Enrollment Oct-11 | Total Medicaid Enrollment Oct-11 | Total CHIP/Medicaid Enrollment | CHIP/Medicaid Enrollment % of Population | 2009 Est. Uninsured 5% | 2009 # Children Uninsured Ranking* |
|---------------|--|------------------------------------|--|--------------------------------------|--|---------------------------------|---|
| Upshur | 4,956 | 368 | 2,316 | 2,684 | 54.2% | 248 | 30 |
| Wayne | 9,176 | 547 | 4,036 | 4,583 | 49.9% | 459 | 13 |
| Webster | 2,020 | 151 | 1,186 | 1,337 | 66.2% | 101 | 46 |
| Wetzel | 3,732 | 229 | 1,574 | 1,803 | 48.3% | 187 | 33 |
| Wirt | 1,268 | 96 | 628 | 724 | 57.1% | 63 | 54 |
| Wood | 19,063 | 1,170 | 8,486 | 9,656 | 50.7% | 953 | 3 |
| Wyoming | 5,092 | 397 | 2,492 | 2,889 | 56.7% | 255 | 29 |
| Totals | 382,490 | 24,664 | 159,934 | 184,598 | 48.3% | 19,125 | |



Note 1: The most recent estimate for all uninsured children statewide from the US Census Current Population Survey is 4.6%. It should be noted that even this five percent extrapolation to the county level could vary significantly from county to county depending on the availability of employee sponsored insurance. However, it remains our best gross estimate of the remaining uninsured children.

Note 2: It has been estimated that 7 of 10 uninsured children qualify or may have qualified for CHIP or Medicaid in the past, WVCHIP uses the 5% uninsured estimate as a target number for outreach.

~~West Virginia Children's Health Insurance Program~~
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
For the Three Months Ending September 30, 2011 and September 30, 2010
 (Modified Accrual Basis)

| | September 30, 2011 | September 30, 2010 | Variance | |
|--------------------------------------|--------------------------|--------------------------|-------------------------|-------------------|
| Revenues | | | | |
| Federal Grants | 10,430,633 | 10,459,280 | (28,647) | 0% |
| State Appropriations | 2,085,126 | 2,085,126 | 0 | 0% |
| Premium Revenues | 149,498 | 105,784 | 43,714 | 41% |
| Investment Income: | | | | |
| Investment Earnings | 54,562 | 57,326 | (2,764) | -5% |
| Unrealized Gain(loss) On Investments | (60,709) | 79,169 | (139,878) | 100% |
| Total Investment Income | <u>(6,147)</u> | <u>136,495</u> | <u>(142,642)</u> | <u>-105%</u> |
| Total Revenues | <u>12,659,110</u> | <u>12,786,686</u> | <u>(127,576)</u> | <u>-1%</u> |
| Expenditures: | | | | |
| Claims: | | | | |
| Outpatient Services | 3,745,954 | 3,183,567 | 562,387 | 18% |
| Physicians & Surgical | 2,690,313 | 2,857,984 | (167,671) | -6% |
| Prescribed Drugs | 2,415,389 | 2,055,340 | 360,049 | 18% |
| Dental | 2,000,561 | 1,562,017 | 438,544 | 28% |
| Inpatient Hospital Services | 1,047,122 | 1,011,945 | 35,177 | 3% |
| Durable & Disposable Med. Equip. | 377,085 | 323,579 | 53,506 | 17% |
| Outpatient Mental Health | 308,731 | 321,503 | (12,772) | -4% |
| Vision | 240,275 | 243,937 | (3,662) | -2% |
| Inpatient Mental Health | 172,101 | 196,744 | (24,643) | -13% |
| Therapy | 121,120 | 140,531 | (19,411) | -14% |
| Medical Transportation | 73,819 | 129,318 | (55,499) | -43% |
| Other Services | 48,732 | 27,136 | 21,596 | 80% |
| Less: Collections** | <u>(67,828)</u> | <u>(181,458)</u> | <u>113,630</u> | <u>-63%</u> |
| Total Claims | <u>13,173,374</u> | <u>11,872,143</u> | <u>1,301,231</u> | <u>11%</u> |
| General and Admin Expenses: | | | | |
| Salaries and Benefits | 129,627 | 131,695 | (2,068) | -2% |
| Program Administration | 436,764 | 684,100 | (247,336) | -36% |
| Eligibility | 66,000 | 104,273 | (38,273) | -37% |
| Outreach & Health Promotion | 257,643 | 55,864 | 201,779 | 361% |
| Current | <u>87,504</u> | <u>39,427</u> | <u>48,077</u> | <u>122%</u> |
| Total Administrative | <u>977,538</u> | <u>1,015,359</u> | <u>(37,821)</u> | <u>-4%</u> |
| Total Expenditures | <u>14,150,912</u> | <u>12,887,502</u> | <u>1,263,410</u> | <u>10%</u> |
| Excess of Revenues | | | | |
| Over (Under) Expenditures | (1,491,802) | (100,817) | (1,390,985) | 1380% |
| Fund Equity, Beginning | <u>13,994,558</u> | <u>10,109,506</u> | <u>3,885,052</u> | <u>38%</u> |
| Fund Equity, Ending | <u>12,502,756</u> | <u>10,008,689</u> | <u>2,494,067</u> | <u>25%</u> |

* Short Term Bond Fund Investment began in November 2009

** Collections are primarily drug rebates and subrogation

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

**West Virginia Children's Health Insurance Program
Comparative Balance Sheet
September 2011 and 2010
(Accrual Basis)**

| | September 30, 2011 | September 30, 2010 | Variance | |
|--|----------------------------|----------------------------|---------------------------|-------------------|
| Assets: | | | | |
| Cash & Cash Equivalents | \$12,005,161 | \$12,237,966 | (\$232,805) | -2% |
| Due From Federal Government | \$5,693,128 | \$3,291,477 | \$2,401,651 | 73% |
| Due From Other Funds | \$842,492 | \$730,858 | \$111,634 | 15% |
| Accrued Interest Receivable | \$5,250 | \$22,180 | (\$16,930) | -76% |
| Fixed Assets, at Historical Cost | <u>\$96,031</u> | <u>\$68,563</u> | <u>\$27,468</u> | <u>40%</u> |
| Total Assets | <u>\$18,642,062</u> | <u>\$16,351,044</u> | <u>\$2,291,018</u> | <u>14%</u> |
| Liabilities: | | | | |
| Due to Other Funds | \$288,090 | \$122,335 | \$165,755 | 135% |
| Deferred Revenue | \$1,641,216 | \$2,320,019 | (\$678,803) | -29% |
| Unpaid Insurance Claims Liability | <u>\$4,210,000</u> | <u>\$3,900,000</u> | <u>\$310,000</u> | <u>8%</u> |
| Total Liabilities | <u>\$6,139,306</u> | <u>\$6,342,354</u> | <u>(\$203,048)</u> | <u>-3%</u> |
| Fund Equity | <u>\$12,502,756</u> | <u>\$10,008,690</u> | <u>\$2,494,066</u> | <u>25%</u> |
| Total Liabilities and Fund Equity | <u>\$18,642,062</u> | <u>\$16,351,044</u> | <u>\$2,291,018</u> | <u>14%</u> |

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

**West Virginia Children's Health Insurance Program
WVFIMS Fund 2154
For the Month Ended September 30, 2011
(Accrual Basis)**

Investment Account

| | |
|-----------------|----------------------------|
| Funds Invested | \$11,924,179 |
| Interest Earned | <u>-27,461</u> |
| Total | <u>\$11,896,718</u> |

Unaudited - For Management Purposes Only - Unaudited

Department of Administration Real Estate Division Leasing Report
For the period of October 1, 2011 through October 31, 2011

STRAIGHT RENEWAL

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-136 Renewal for 3 years consisting of 5,650 square feet of office space at the current annual per square foot rate of \$9.60, annual cost \$54,240.00, janitorial only, in the City of Harrisville, Ritchie County, West Virginia.

RENEWAL WITH ADDITION OF AEOC CLAUSE- DOA OWNED

DIVISION OF ADMINISTRATION – FINANCE & ACCOUNTING

F&A-027 Renewal for 8 months consisting of 9,640 square feet of office space at the current annual per square foot rate of \$11.50, annual cost \$110,859.96, full service, in the City of Charleston, Kanawha County, West Virginia.

DIVISION OF ADMINISTRATION – OFFICE OF TECHNOLOGY

F&A-035 Renewal for 1 month with consisting of 1,119 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$10,620.00, full service, in the City of Charleston, Kanawha County, West Virginia.

F&A-030 Renewal for 1 month with consisting of 5,015 square feet of office space at the current annual per square foot rate of \$10.00, annual cost \$50,150.00, full service, in the City of Charleston, Kanawha County, West Virginia.

F&A-026 Renewal for 9 months with consisting of 2,800 square feet of office space at the current annual per square foot rate of \$8.50, annual cost \$23,799.96, full service minus janitorial, in the City of Charleston, Kanawha County, West Virginia.

F&A-005 Renewal for 7 months with consisting of 19,173 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$182,143.44, full service, in the City of Charleston, Kanawha County, West Virginia.

DEPARTMENT OF EDUCATION

EDU-021 Renewal for 9 months with consisting of 4,917 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$46,711.50, full service, in the City of Charleston, Kanawha County, West Virginia.

EDU-002 Renewal for 6 months consisting of 59,598 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$566,181.00, full service, in the City of Charleston, Kanawha County, West Virginia.

DEPARTMENT OF EDUCATION AND THE ARTS

E&A-001 Renewal for 6 months with consisting of 4,917 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$46,711.50, full service, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH ADDITION OF AEOC CLAUSE- DOA OWNED – CONT.

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-206-SUB Renewal for 7 months consisting of 82,549 square feet of office space at the current annual per square foot rate of \$10.00, annual cost \$825,490.00, full service, in the City of Charleston, Kanawha County, West Virginia.

HHR-193-SUB Renewal for 9 months consisting of 19,255 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$250,314.96, full service, in the City of Charleston, Kanawha County, West Virginia.

HHR-168 Renewal for 9 months with consisting of 32,016 square feet of office space at the current annual per square foot rate of \$15.50, annual cost \$496,248.00, full service, in the City of Parkersburg, Wood County, West Virginia.

HHR-139 Renewal for 3 months consisting of 40,466 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$526,058.04, full service, in the City of Huntington, Cabell County, West Virginia.

HHR-133 Renewal for 7 months with consisting of 30,902 square feet of office space at the current annual per square foot rate of \$14.75, annual cost \$455,804.52, full service, in the City of Beckley, Raleigh County, West Virginia.

DEPARTMENT OF MILITARY AFFAIRS AND PUBLIC SAFETY

MAP-002 Renewal for 3 months consisting of 3,476 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$33,021.96, full service, in the City of Charleston, Kanawha County, West Virginia.

DEPARTMENT OF REVENUE

TAX-030 Renewal for 6 months with consisting of 7,799 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$74,088.96, full service, in the City of Charleston, Kanawha County, West Virginia.

DEPARTMENT OF TRANSPORTATION

DOT-001 Renewal for 6 months consisting of 1,521 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$14,449.56, full service, in the City of Charleston, Kanawha County, West Virginia.

DIVISION OF CORRECTIONS

COR-086 Renewal for 8 months consisting of 1,304 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$12,387.96, full service, in the City of Charleston, Kanawha County, West Virginia.

COR-085 Renewal for 8 months consisting of 17,379 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$165,102.00, full service, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH ADDITION OF AEOC CLAUSE- DOA OWNED – CONT.

DIVISION OF LABOR

LAB-001 Renewal for 6 months with consisting of 11,285 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$107,207.52, full service, in the City of Charleston, Kanawha County, West Virginia.

DIVISION OF PERSONNEL

DOP-002 Renewal for 6 months with consisting of 20,120 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$191,139.96, full service, in the City of Charleston, Kanawha County, West Virginia.

DIVISION OF PROTECTIVE SERVICES

DPS-001 Renewal for 6 months consisting of 790 square feet of office space at the current annual per square foot rate of \$5.00, annual cost \$3,949.92, full service, in the City of Charleston, Kanawha County, West Virginia.

DIVISION OF PUBLIC TRANSIT

PTA-001 Renewal for 6 months with consisting of 2,356 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$22,382.04, full service, in the City of Charleston, Kanawha County, West Virginia.

DIVISION OF REHABILITATION SERVICES

DRS-089 Renewal for 9 months consisting of 3,048 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$39,624.00, full service, in the City of Weirton, Hancock County, West Virginia.

DRS-082 Renewal for 3 months consisting of 9,360 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$121,680.00, full service, in the City of Huntington, Cabell County, West Virginia.

DRS-054 Renewal for 10 months consisting of 4,386 square feet of office space at the current annual per square foot rate of \$14.50, annual cost \$63,597.00, full service, in the City of Parkersburg, Wood County, West Virginia.

DIVISION OF VETERANS AFFAIRS

VET-015 Renewal for 3 months consisting of 500 square feet of office space at the current annual per square foot rate of \$14.75, annual cost \$7,374.96, full service, in the City of Beckley, Raleigh County, West Virginia.

MARSHALL UNIVERSITY

MAR-024-SUB Renewal for 5 months consisting of 282 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$3,666.00, full service, in the City of Weirton, Hancock County, West Virginia.

RENEWAL WITH ADDITION OF AEOC CLAUSE- DOA OWNED – CONT.

OFFICES OF THE INSURANCE COMMISSIONER

INS-029 Renewal for 9 months consisting of 3,369 square feet of office space at the current annual per square foot rate of \$14.50, annual cost \$48,850.56, full service, in the City of Charleston, Kanawha County, West Virginia.

INS-028 Renewal for 9 months consisting of 43,926 square feet of office space at the current annual per square foot rate of \$14.50, annual cost \$636,927.00, full service, in the City of Charleston, Kanawha County, West Virginia.

INS-019 Renewal for 7 months consisting of 952 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$9,040.44, full service, in the City of Parkersburg, Wood County, West Virginia.

PRISON INDUSTRIES

PRI-001 Renewal for 8 months consisting of 34,834 square feet of storage space at the current annual rate of \$1.00, annual cost \$1.00, full service, in the City of Charleston, Kanawha County, West Virginia.

PUBLIC PORT AUTHORITY

PPA-001 Renewal for 6 months consisting of 756 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$7,182.00, full service, in the City of Charleston, Kanawha County, West Virginia.

STATE AERONAUTICS COMMISSION

AER-003 Renewal for 6 months consisting of 884 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$8,397.96, full service, in the City of Charleston, Kanawha County, West Virginia.

STATE TAX DEPARTMENT

TAX-054 Renewal for 9 months consisting of 17,503 square feet of office space at the current annual per square foot rate of \$14.50, annual cost \$253,793.50, full service, in the City of Charleston, Kanawha County, West Virginia.

TAX-050 Renewal for 3 months consisting of 2,671 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$34,722.96, full service, in the City of Huntington, Cabell County, West Virginia.

TAX-010 Renewal for 7 months consisting of 3,506 square feet of office space at the current annual per square foot rate of \$14.75, annual cost \$51,713.52, full service, in the City of Beckley, Raleigh County, West Virginia.

WEST VIRGINIA BOARD OF SOCIAL WORK EXAMINERS

SOC-001 Renewal for 6 months consisting of 669 square feet of office space at the current annual per square foot rate of \$8.75, annual cost \$5,853.72, full service, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH ADDITION OF AEOC CLAUSE- DOA OWNED – CONT.

WEST VIRGINIA DEVELOPMENT OFFICE

CID-002 Renewal for 6 months consisting of 33,773 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$320,843.52, full service, in the City of Charleston, Kanawha County, West Virginia.

WORKFORCE WEST VIRGINIA

WWV-008 Renewal for 9 months consisting of 5,342 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$69,446.04, full service, in the City of Weirton, Hancock County, West Virginia.

WWV-007 Renewal for 8 months with consisting of 65,451 square feet of office space at the current annual per square foot rate of \$9.03, annual cost \$591,022.56, full service, in the City of Charleston, Kanawha County, West Virginia.

WWV-004 Renewal for 3 months consisting of 11,534 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$149,941.92, full service, in the City of Huntington, Cabell County, West Virginia.

WV GEOLOGICAL AND ECONOMIC SURVEY

GES-002 Renewal for 9 months consisting of 1,188 square feet of office space at the current annual per square foot rate of \$14.50, annual cost \$17,226.00, full service, in the City of Charleston, Kanawha County, West Virginia.

ADDITION OF AEOC CLAUSE- DOA OWNED

DEPARTMENT OF ADMINISTRATION – OFFICE OF TECHNOLOGY

F&A-029 Addition of Annual Evaluation of Operating Costs Clause, consisting of 2,490 square feet of storage space at the current annual per square foot rate of \$9.50, annual cost \$23,655.00, full service, in the City of Charleston, Kanawha County, West Virginia.

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-147 Addition of Annual Evaluation of Operating Costs Clause, consisting of 19,850 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$188,574.96, full service, in the City of Charleston, Kanawha County, West Virginia.

DIVISION OF NATURAL RESOURCES

NAT-131 Addition of Annual Evaluation of Operating Costs Clause, consisting of 36,270 square feet of office space at the current annual per square foot rate of \$9.50, annual cost \$344,565.00, full service, in the City of South Charleston, Kanawha County, West Virginia.

OFFICES OF THE INSURANCE COMMISSION

INS-021 Addition of Annual Evaluation of Operating Costs Clause, consisting of 613 square feet of office space at the current annual per square foot rate of \$13.00, annual cost \$7,968.96, full service, in the City of Huntington, Cabell County, West Virginia.

RENEWAL WITH INCREASE IN RENT

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-174 Renewal for 3 years consisting of 3,022 square feet of office space with an increase in the annual per square foot rate from \$9.29 to \$9.60, annual cost \$29,011.20, full service, in the City of Beckley, Raleigh County, West Virginia.

ADDITION OF SQUARE FOOTAGE

DIVISION OF HIGHWAYS

HWY-023 Addition of one cubicle for a total of three cubicles at the monthly rate of \$900.00, annual cost \$10,800.00, full service, in the City of Morgantown, Monongalia County, West Virginia.

RENEWAL WITH DECREASE IN RENT

DIVISION OF HIGHWAYS

HWY-022 Renewal for 5 years consisting of 1,088 square feet of office space with a decrease in the annual per square foot rate from \$6.62 to \$6.03 due to a shift in responsibility of utilities from the Lessor to the Tenant, annual cost \$6,256.00, in the City of Cameron, Marshall County, West Virginia.

CANCELLATION

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-163 Lease cancellation consisting of 189 square feet of office space, at the annual per square foot rate of \$6.35 annual cost \$1,200.00, full service, in the City of Charleston, Kanawha County, West Virginia.

OFFICE OF ECONOMIC OPPORTUNITY – GOVERNOR'S OFFICE

GCC-009 Lease cancellation consisting of 4,452 square feet of office space, at the annual per square foot rate of \$4.72 annual cost \$21,000.00, full service, in the City of Princeton, Mercer County, West Virginia.

Real Estate Division
 Monthly Summary of Lease Activity
 October 1 - 31, 2011

| # of Transactions | Agency | Lease # | County | Square Feet | Rental Rate | Annual Rent |
|-------------------|---|---------|------------|-------------|-------------|-------------|
| 1 | Department of Health and Human Resources | HHR-136 | Ritchie | 5,650 | 9.60 | 54,240 |
| 2 | Division of Administration - Finance & Accounting | F&A-027 | Kanawha | 9,640 | 11.50 | 110,860 |
| 3 | Division of Administration - Office of Technology | F&A-035 | Kanawha | 1,119 | 9.50 | 10,620 |
| 4 | Division of Administration - Office of Technology | F&A-030 | Kanawha | 5,015 | 10.00 | 50,150 |
| 5 | Division of Administration - Office of Technology | F&A-026 | Kanawha | 2,800 | 8.50 | 23,800 |
| 6 | Division of Administration - Office of Technology | F&A-005 | Kanawha | 19,173 | 9.50 | 182,144 |
| 7 | Department of Education | EDU-021 | Kanawha | 4,917 | 9.50 | 46,712 |
| 8 | Department of Education | EDU-002 | Kanawha | 59,598 | 9.50 | 566,181 |
| 9 | Department of Education and the Arts | E&A-001 | Kanawha | 4,917 | 9.50 | 46,712 |
| 10 | Department of Health and Human Resources | HHR-206 | Kanawha | 82,549 | 10.00 | 825,490 |
| 11 | Department of Health and Human Resources | HHR-193 | Kanawha | 19,255 | 13.00 | 250,315 |
| 12 | Department of Health and Human Resources | HHR-168 | Wood | 32,016 | 15.50 | 496,248 |
| 13 | Department of Health and Human Resources | HHR-139 | Cabell | 40,466 | 13.00 | 526,058 |
| 14 | Department of Health and Human Resources | HHR-133 | Raleigh | 30,902 | 14.75 | 455,805 |
| 15 | Department of Military Affairs and Public Safety | MAP-002 | Kanawha | 3,476 | 9.50 | 33,022 |
| 16 | Department of Revenue | TAX-030 | Kanawha | 7,799 | 9.50 | 74,089 |
| 17 | Department of Transportation | DOT-001 | Kanawha | 1,521 | 9.50 | 14,450 |
| 18 | Division of Corrections | COR-086 | Kanawha | 1,304 | 9.50 | 12,388 |
| 19 | Division of Corrections | COR-085 | Kanawha | 17,379 | 9.50 | 165,101 |
| 20 | Division of Labor | LAB-001 | Kanawha | 11,285 | 9.50 | 107,208 |
| 21 | Division of Personnel | DOP-002 | Kanawha | 20,120 | 9.50 | 191,140 |
| 22 | Division of Protective Services | DPS-001 | Kanawha | 790 | 5.00 | 3,950 |
| 23 | Division of Public Transit | PTA-001 | Kanawha | 2,356 | 9.50 | 22,382 |
| 24 | Division of Rehabilitation Services | DRS-089 | Hancock | 3,048 | 13.00 | 39,624 |
| 25 | Division of Rehabilitation Services | DRS-082 | Cabell | 9,360 | 13.00 | 121,680 |
| 26 | Division of Rehabilitation Services | DRS-054 | Wood | 4,386 | 14.50 | 63,597 |
| 27 | Division of Veterans Affairs | VET-015 | Raleigh | 500 | 14.75 | 7,375 |
| 28 | Marshall University | MAR-024 | Hancock | 282 | 13.00 | 3,666 |
| 29 | Offices of the Insurance Commission | INS-029 | Kanawha | 3,369 | 14.50 | 48,851 |
| 30 | Offices of the Insurance Commission | INS-028 | Kanawha | 43,926 | 14.50 | 636,927 |
| 31 | Offices of the Insurance Commission | INS-019 | Wood | 952 | 9.50 | 9,044 |
| 32 | Prison Industries | PRI-001 | Kanawha | 34,834 | | 1 |
| 33 | Public Port Authority | PPA-001 | Kanawha | 756 | 9.50 | 7,182 |
| 34 | State Aeronautics Commission | AER-003 | Kanawha | 884 | 9.50 | 8,398 |
| 35 | State Tax Department | TAX-054 | Kanawha | 17,503 | 14.50 | 253,794 |
| 36 | State Tax Department | TAX-050 | Kanawha | 2,671 | 13.00 | 34,723 |
| 37 | State Tax Department | TAX-010 | Raleigh | 3,506 | 14.75 | 51,714 |
| 38 | West Virginia Board of Social Work Examiners | SOC-001 | Kanawha | 669 | 8.75 | 5,854 |
| 39 | West Virginia Development Office | CID-002 | Kanawha | 33,773 | 9.50 | 320,844 |
| 40 | WORKFORCE West Virginia | WWV-008 | Hancock | 5,342 | 13.00 | 69,446 |
| 41 | WORKFORCE West Virginia | WWV-007 | Kanawha | 65,451 | 9.03 | 591,023 |
| 42 | WORKFORCE West Virginia | WWV-004 | Cabell | 11,534 | 13.00 | 149,942 |
| 43 | West Virginia Geological and Economic Survey | GES-002 | Kanawha | 1,188 | 14.50 | 17,226 |
| 44 | Department of Administration - Office of Technology | F&A | Kanawha | 2,490 | 9.50 | 23,655 |
| 45 | Department of Health and Human Resources | HHR-147 | Kanawha | 19,850 | 9.50 | 188,575 |
| 46 | Division of Natural Resources | NAT-131 | Kanawha | 36,270 | 9.50 | 344,565 |
| 47 | Offices of the Insurance Commission | INS-021 | Cabell | 613 | 13.00 | 7,969 |
| 48 | Department of Health and Human Resources | HHR-174 | Raleigh | 3,022 | 9.60 | 29,011 |
| 49 | Division of Highways | HWY-023 | Monongalia | | | 10,800 |
| 50 | Division of Highways | HWY-022 | Marshall | 1,088 | 6.03 | 6,561 |

527.26

Total Rentable Square Feet 691,314

Average Annual Rental Rate 10.98

Total Annual Rent 7,321,106

| # of Transactions | Agency | Lease # | County | Square Feet | Rental Rate | Annual Rent |
|-------------------|--|---------|---------|-----------------------------------|--------------|---------------|
| CANCELLATIONS | | | | | | |
| 1 | Department of Health and Human Resources | HHR-163 | Kanawha | 189 | 6.35 | 1,200 |
| 2 | Office of Economic Opportunity - Governor's Office | GCC-009 | Mercer | 4,452 | 4.72 | 21,013 |
| | | | | | 11.07 | |
| | | | | Total Rentable Square Feet | <u>4,641</u> | |
| | | | | Average Annual Rental Rate | <u>5.54</u> | |
| | | | | Total Annual Rent | | <u>22,213</u> |

Joint Committee on Government and Finance

November 2011

Department of Health and Human Resources

MEDICAID REPORT

September 2011 Data

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 EXPENDITURES BY PROVIDER TYPE
 SFY2012

| MONTH OF SEPTEMBER 2011 | ACTUALS | TOTAL | ACTUALS | ESTIMATED | ACTUALS | PROJECTED |
|--|---------------|---------------|------------------------------|------------------------------|---------------------------|-----------------------|
| | SFY2011 | SFY2012 | Current Month Ended 09/30/11 | Current Month Ended 09/30/11 | Year To-Date Thru 9/30/11 | 10/1/11 Thru 06/30/12 |
| EXPENDITURES: | | | | | | |
| Inpatient Hospital - Reg. Payments | 164,043,833 | 176,928,067 | 11,357,337 | 13,628,737 | 38,755,912 | 138,172,155 |
| Inpatient Hospital - DSH | 54,602,728 | 55,616,400 | 161,081 | - | 13,611,483 | 42,004,917 |
| Inpatient Hospital - Supplemental Payments | 150,374,918 | 79,066,286 | 14,464,646 | 14,464,671 | 19,766,571 | 59,299,715 |
| Inpatient Hospital - GME Payments | 5,178,062 | 5,128,800 | - | - | 1,306,720 | 3,822,080 |
| Mental Health Facilities | 82,205,443 | 83,604,219 | 6,335,156 | 6,470,092 | 19,362,660 | 64,241,559 |
| Mental Health Facilities - DSH Adjustment Payments | 18,870,766 | 18,866,400 | - | - | 4,721,705 | 14,144,695 |
| Nursing Facility Services - Regular Payments | 497,490,876 | 533,935,963 | 43,777,747 | 44,518,200 | 128,606,877 | 405,328,986 |
| Nursing Facility Services - Supplemental Payments | - | - | - | - | - | - |
| Intermediate Care Facilities - Public Providers | - | - | - | - | - | - |
| Intermediate Care Facilities - Private Providers | 62,315,850 | 68,807,100 | 8,606,645 | 5,733,925 | 15,584,670 | 53,222,430 |
| Intermediate Care Facilities - Supplemental Payments | - | - | - | - | - | - |
| Physicians Services - Regular Payments | 120,938,365 | 129,796,223 | 9,135,137 | 10,021,817 | 26,383,545 | 103,412,678 |
| Physicians Services - Supplemental Payments | 28,779,948 | 30,575,400 | - | - | 6,559,375 | 24,016,025 |
| Outpatient Hospital Services - Regular Payments | 104,867,944 | 107,096,383 | 10,023,795 | 8,253,801 | 26,532,464 | 80,563,919 |
| Outpatient Hospital Services - Supplemental Payments | - | - | - | - | - | - |
| Prescribed Drugs | 355,934,526 | 368,792,906 | 34,136,722 | 28,762,168 | 90,323,477 | 278,469,429 |
| Drug Rebate Offset - National Agreement | (178,030,580) | (156,989,600) | (2,009,279) | (7,872,980) | (52,685,440) | (104,304,160) |
| Drug Rebate Offset - State Sidebar Agreement | (18,264,735) | (20,042,600) | (31,171) | (956,394) | (2,189,745) | (17,852,855) |
| Dental Services | 65,110,306 | 61,522,537 | 4,939,200 | 4,748,631 | 13,483,126 | 48,039,411 |
| Other Practitioners Services - Regular Payments | 11,297,560 | 13,106,060 | 959,719 | 1,066,838 | 2,827,308 | 10,278,754 |
| Other Practitioners Services - Supplemental Payments | - | - | - | - | - | - |
| Clinic Services | 5,014,428 | 5,507,120 | 295,681 | 437,046 | 1,232,174 | 4,274,946 |
| Lab & Radiological Services | 23,034,934 | 23,867,397 | 2,085,498 | 1,871,020 | 5,674,808 | 18,192,589 |
| Home Health Services | 44,244,071 | 45,150,371 | 4,108,107 | 3,517,223 | 12,517,633 | 32,632,738 |
| Hysterectomies/Sterilizations | 202,721 | 221,100 | 23,910 | 17,008 | 52,195 | 168,905 |
| Pregnancy Terminations | - | - | - | - | - | - |
| EPSDT Services | 1,393,791 | 1,692,037 | 138,164 | 130,846 | 339,129 | 1,352,908 |
| Rural Health Clinic Services | 7,938,113 | 9,400,347 | 598,805 | 732,338 | 1,714,815 | 7,685,532 |
| Medicare Health Insurance Payments - Part A Premiums | 17,589,540 | 19,087,800 | - | 1,590,650 | 4,129,923 | 14,957,877 |
| Medicare Health Insurance Payments - Part B Premiums | 86,800,107 | 101,265,000 | (592,002) | 8,438,760 | 22,717,175 | 78,547,825 |
| 120% - 134% Of Poverty | 6,412,164 | 7,018,300 | 592,002 | 539,869 | 1,752,002 | 5,266,298 |
| 135% - 175% Of Poverty | - | - | - | - | - | - |
| Coinsurance And Deductibles | 7,200,103 | 7,611,400 | 637,579 | 585,492 | 1,635,707 | 5,975,693 |

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 EXPENDITURES BY PROVIDER TYPE
 SFY2012

| MONTH OF SEPTEMBER 2011 | ACTUALS | TOTAL | ACTUALS | ESTIMATED | ACTUALS | PROJECTED |
|--|----------------------|----------------------|------------------------------|------------------------------|---------------------------|-----------------------|
| | SFY2011 | SFY2012 | Current Month Ended 09/30/11 | Current Month Ended 09/30/11 | Year To-Date Thru 9/30/11 | 10/1/11 Thru 06/30/12 |
| Medicaid Health Insurance Payments: Managed Care Organizations (MCO) | 331,340,463 | 332,146,800 | 28,924,002 | 27,878,900 | 83,500,629 | 248,646,171 |
| Medicaid Health Insurance Payments: Prepaid Ambulatory Health Plan | - | - | - | - | - | - |
| Medicaid Health Insurance Payments: Prepaid Inpatient Health Plan | - | - | - | - | - | - |
| Medicaid Health Insurance Payments: Group Health Plan Payments | 430,840 | 474,700 | - | 36,515 | 78,637 | 396,063 |
| Medicaid Health Insurance Payments: Coinsurance | - | - | - | - | - | - |
| Medicaid Health Insurance Payments: Other | 22,935 | - | - | - | - | - |
| Home & Community-Based Services (MR/DD) | 250,190,675 | 291,985,942 | 26,242,094 | 20,984,784 | 64,036,975 | 227,948,967 |
| Home & Community-Based Services (Aged/Disabled) | 105,384,910 | 157,141,155 | 9,930,766 | 8,866,168 | 30,765,624 | 126,375,531 |
| Home & Community-Based Services (Traumatic Brain Injury) | - | 2,600,925 | - | 200,071 | - | 2,600,925 |
| Home & Community-Based Services (State Plan 1915(i) Only) | - | - | - | - | - | - |
| Home & Community-Based Services (State Plan 1915(j) Only) | - | - | - | - | - | - |
| Community Supported Living Services | - | - | - | - | - | - |
| Programs Of All-Inclusive Care Elderly | - | - | - | - | - | - |
| Personal Care Services - Regular Payments | 43,271,225 | 54,253,564 | 3,874,242 | 3,617,662 | 11,312,058 | 42,941,506 |
| Personal Care Services - SDS 1915(j) | - | - | - | - | - | - |
| Targeted Case Management Services - Com. Case Management | - | - | - | - | - | - |
| Targeted Case Management Services - State Wide | 3,683,372 | 4,102,733 | 206,272 | 318,708 | 760,876 | 3,341,857 |
| Primary Care Case Management Services | 311,397 | 362,800 | 23,448 | 27,908 | 71,727 | 291,073 |
| Hospice Benefits | 23,031,071 | 23,968,000 | 1,668,920 | 1,843,692 | 5,464,067 | 18,503,933 |
| Emergency Services Undocumented Aliens | 250,549 | 252,200 | 4,117 | 19,400 | 63,848 | 188,352 |
| Federally Qualified Health Center | 17,062,376 | 18,053,125 | 1,898,715 | 1,403,454 | 4,441,651 | 13,611,474 |
| Non-Emergency Medical Transportation | 22,846,997 | 23,329,348 | 1,954,837 | 1,796,546 | 6,069,411 | 17,259,937 |
| Physical Therapy | 1,950,648 | 1,993,133 | 168,040 | 153,546 | 505,969 | 1,487,164 |
| Occupational Therapy | 259,371 | 223,033 | 30,045 | 17,408 | 97,473 | 125,560 |
| Services for Speech, Hearing & Language | 322,095 | 261,398 | 43,790 | 20,400 | 164,565 | 96,833 |
| Prosthetic Devices, Dentures, Eyeglasses | 1,750,474 | 1,982,028 | 176,257 | 153,454 | 473,190 | 1,508,838 |
| Diagnostic Screening & Preventive Services | 506,980 | 555,348 | 42,386 | 42,815 | 120,918 | 434,430 |
| Nurse Mid-Wife | 241,124 | 280,900 | 20,142 | 21,608 | 61,648 | 219,252 |
| Emergency Hospital Services | 1,340,493 | 5,903,671 | 736 | 454,246 | (5,858) | 5,909,529 |
| Critical Access Hospitals | 31,130,998 | 33,377,270 | 2,696,064 | 2,570,723 | 7,379,723 | 25,997,547 |
| Nurse Practitioner Services | 1,296,506 | 1,242,745 | 116,156 | 95,931 | 327,615 | 915,130 |
| School Based Services | 55,049,683 | 66,000,436 | 1,944,344 | 5,080,477 | 15,339,353 | 50,661,083 |
| Rehabilitative Services (Non-School Based) | 76,039,609 | 88,073,374 | 5,689,273 | 6,415,962 | 20,658,787 | 67,414,587 |
| Private Duty Nursing | 4,856,304 | 5,087,998 | 445,779 | 410,031 | 1,242,276 | 3,845,722 |
| Other Care Services | 20,936,984 | 22,969,227 | 1,941,576 | 1,767,727 | 5,582,309 | 17,386,918 |
| Less: Recoupments | - | - | (58,638) | - | (373,422) | 373,422 |
| NET EXPENDITURES: | 2,719,053,859 | 2,913,253,269 | 237,727,842 | 230,697,884 | 662,856,416 | 2,250,396,854 |

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 EXPENDITURES BY PROVIDER TYPE
 SFY2012

| MONTH OF SEPTEMBER 2011 | ACTUALS | TOTAL | ACTUALS | ESTIMATED | ACTUALS | PROJECTED |
|--|-------------------------|-------------------------|------------------------------|------------------------------|---------------------------|-------------------------|
| | SFY2011 | SFY2012 | Current Month Ended 09/30/11 | Current Month Ended 09/30/11 | Year To-Date Thru 9/30/11 | 10/1/11 Thru 06/30/12 |
| Collections: Third Party Liability (line 9A on CMS-64) | (9,341,740) | - | - | - | - | - |
| Collections: Probate (line 9B on CMS-64) | (81,809) | - | - | - | - | - |
| Collections: Identified through Fraud & Abuse Effort (line 9C on CMS-64) | (386) | - | - | - | - | - |
| Collections: Other (line 9D on CMS-64) | (7,250,803) | - | - | - | - | - |
| NET EXPENDITURES and CMS-64 ADJUSTMENTS: | 2,702,379,111 | 2,913,253,269 | 237,727,842 | 230,697,884 | 662,856,416 | 2,250,396,854 |
| Plus: Medicaid Part D Expenditures | 18,156,396 | 33,719,754 | - | 2,593,827 | 7,404,406 | 26,315,348 |
| Plus: State Only Medicaid Expenditures | 4,750,829 | 4,580,645 | 290,276 | 363,712 | 895,020 | 3,685,626 |
| Plus: Money Follow the Person Expenditures | - | 3,964,312 | - | 304,947 | - | 3,964,312 |
| TOTAL MEDICAID EXPENDITURES | \$ 2,725,286,336 | \$ 2,955,517,980 | \$ 238,018,118 | \$ 233,960,370 | \$ 671,155,841 | \$ 2,284,362,139 |
| Plus: Reimbursables ⁽¹⁾ | 5,304,734 | 5,832,222 | 505,576 | 447,333 | 1,519,158 | 4,313,065 |
| TOTAL EXPENDITURES | \$ 2,730,591,069 | \$ 2,961,350,203 | \$ 238,523,694 | \$ 234,407,703 | \$ 672,674,999 | \$ 2,288,675,204 |

(1) This amount will revert to State Only if not reimbursed.

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MEDICAID CASH REPORT
 SFY2012

MONTH OF SEPTEMBER 2011

3 Months Actuals 9 Months Remaining

REVENUE SOURCES

Beg. Bal. (5084/1020 prior mth)

MATCHING FUNDS

General Revenue (0403/189)

MRDD Waiver (0403/486)

Rural Hospitals Under 150 Beds (0403/940)

Tertiary Funding (0403/547)

Traumatic Brain Injury (0403/835)

Title XIX Waiver for Seniors (0403-533)

Lottery Waiver (Less 550,000) (5405/539)

Lottery Transfer (5405/871)

Trust Fund Appropriation (5185/189)

Provider Tax (5090/189)

Certified Match

Reimbursables - Amount Reimbursed

Other Revenue (MWIN, Escheated Warrants, etc.) 5084/4010 & 4015

CMS - 64 Adjustments

TOTAL MATCHING FUNDS

FEDERAL FUNDS

TOTAL REVENUE SOURCES

TOTAL EXPENDITURES:

Provider Payments

TOTAL

| | ACTUALS SFY2011 | ACTUALS Current Month Ended 9/30/11 | ACTUALS Year-To-Date Thru 9/30/11 | PROJECTED 10/1/2011 Thru 6/30/12 | TOTAL SFY2012 |
|---|--------------------|--|--|---|------------------|
| Beg. Bal. (5084/1020 prior mth) | \$ 213,890,990 | \$ 166,787,866 | \$ 210,933,113 | \$ - | \$ 210,933,113 |
| MATCHING FUNDS | | | | | |
| General Revenue (0403/189) | 222,471,412 | 8,805,389 | 28,416,167 | 192,054,431 | 218,470,598 |
| MRDD Waiver (0403/486) | 87,753,483 | 5,916,899 | 17,750,697 | 71,002,788 | 88,753,483 |
| Rural Hospitals Under 150 Beds (0403/940) | 2,598,000 | 218,334 | 649,000 | 1,947,000 | 2,598,000 |
| Tertiary Funding (0403/547) | 6,356,000 | 529,666 | 1,589,000 | 4,767,000 | 6,356,000 |
| Traumatic Brain Injury (0403/835) | - | 68,668 | 200,000 | 600,000 | 800,000 |
| Title XIX Waiver for Seniors (0403-533) | 7,500,000 | 639,188 | 1,917,500 | 10,170,000 | 12,087,500 |
| Lottery Waiver (Less 550,000) (5405/539) | 23,272,678 | - | 8,000,000 | 23,272,578 | 31,272,678 |
| Lottery Transfer (5405/871) | 18,670,000 | - | 2,200,000 | 6,470,000 | 8,670,000 |
| Trust Fund Appropriation (5185/189) | - | - | - | 6,470,000 | 8,670,000 |
| Provider Tax (5090/189) | 162,750,473 | 12,240,000 | 39,840,000 | 30,558,584 | 30,558,584 |
| Certified Match | 16,726,042 | 1,207,728 | 8,213,390 | 122,442,760 | 162,282,760 |
| Reimbursables - Amount Reimbursed | 3,688,478 | 83,835 | 2,004,624 | 18,539,468 | 24,752,858 |
| Other Revenue (MWIN, Escheated Warrants, etc.) 5084/4010 & 4015 | 712,458 | 71,584 | 212,612 | 3,827,598 | 5,832,222 |
| CMS - 64 Adjustments | 898,977 | - | - | (212,612) | - |
| TOTAL MATCHING FUNDS | \$ 765,086,891 | \$ 198,545,113 | \$ 317,926,103 | \$ 485,437,603 | \$ 803,363,706 |
| FEDERAL FUNDS | \$ 2,191,365,796 | \$ 178,955,273 | \$ 493,018,833 | \$ 1,635,127,304 | \$ 2,128,146,136 |
| TOTAL REVENUE SOURCES | \$ 2,946,482,686 | \$ 375,500,386 | \$ 810,944,936 | \$ 2,120,564,907 | \$ 2,631,509,842 |
| TOTAL EXPENDITURES: | | | | | |
| Provider Payments | \$ 2,730,591,069 | \$ 238,523,694 | \$ 672,674,999 | \$ 2,288,676,204 | \$ 2,981,350,203 |
| TOTAL | \$ 216,891,617 | \$ 136,976,691 | \$ 138,269,937 | | \$ (29,840,381) |

Note: FMAP (83.05% applicable July - Dec. 2010) (80.05% applicable Jan. 2011 - Mar. 2011) (78.05% applicable Apr. 2011 - Jun. 2011)

WEST VIRGINIA INVESTMENT MANAGEMENT BOARD

Monthly Performance Report

September 30, 2011



West Virginia Investment Management Board

Participant Plans Allocation & Performance Net of Fees

As of September 30, 2011

| | 6/30/2011 | | 9/30/2011 | | Performance % | | | | | | |
|--|-------------------|--------------|-------------------|--------------|---------------|---------|-------|--------|--------|--------|---------|
| | Asset (\$000) | % | Asset (\$000) | % | 1 Month | 3 Month | FYTD | 1 Year | 3 Year | 5 Year | 10 Year |
| WVIMB Fund Assets | 12,849,850 | 100.0 | 11,991,050 | 100.0 | | | | | | | |
| Pension Assets | 10,191,097 | 79.3 | 9,297,439 | 77.5 | | | | | | | |
| Public Employees' Retirement System | 4,359,025 | 33.8 | 3,980,927 | 33.2 | -5.0 | -8.4 | -8.4 | 1.8 | 6.6 | 2.7 | 6.2 |
| Teachers' Retirement System | 5,010,212 | 38.9 | 4,567,297 | 38.1 | -4.9 | -8.4 | -8.4 | 1.7 | 6.1 | 2.2 | 5.9 |
| Teachers' Employers Cont. Collection A/C | - | 0.0 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | | |
| EMS Retirement System | 31,963 | 0.3 | 30,087 | 0.2 | -5.0 | -8.4 | -8.4 | 1.7 | 6.7 | | |
| Public Safety Retirement System | 482,005 | 3.8 | 434,685 | 3.6 | -5.0 | -8.4 | -8.4 | 1.9 | 6.6 | 2.7 | 6.3 |
| Judges' Retirement System | 124,587 | 1.0 | 114,277 | 0.9 | -5.0 | -8.4 | -8.4 | 1.7 | 6.6 | 2.7 | 6.1 |
| State Police Retirement System | 70,756 | 0.6 | 66,588 | 0.6 | -4.9 | -8.3 | -8.3 | 1.7 | 6.6 | 2.8 | 6.1 |
| Deputy Sheriffs' Retirement System | 112,488 | 0.9 | 103,498 | 0.9 | -4.9 | -8.4 | -8.4 | 1.8 | 6.6 | 2.7 | 6.2 |
| Municipal Police & Firefighter Retirement System | 61 | 0.0 | 80 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | | | |
| Insurance Assets | 1,968,581 | 15.3 | 1,868,549 | 15.6 | | | | | | | |
| Workers' Compensation Old Fund | 933,073 | 7.3 | 884,191 | 7.4 | -2.0 | -2.7 | -2.7 | 2.4 | 6.3 | 3.3 | |
| Workers' Comp. Self-Insured Guaranty Risk Pool | 9,627 | 0.1 | 9,490 | 0.1 | -2.3 | -3.4 | -3.4 | 2.6 | 1.1 | 2.4 | |
| Workers' Comp. Uninsured Employers Fund | 8,911 | 0.1 | 8,606 | 0.1 | -2.3 | -3.4 | -3.4 | 1.1 | 0.6 | 2.1 | |
| Pneumoconiosis | 261,558 | 1.9 | 249,972 | 2.1 | -2.3 | -3.4 | -3.4 | 2.8 | 7.0 | 3.8 | |
| Board of Risk & Insurance Mgmt. | 140,522 | 1.1 | 129,769 | 1.1 | -2.3 | -3.4 | -3.4 | 2.7 | 8.7 | 4.7 | |
| Public Employees' Insurance Agency | 175,171 | 1.4 | 173,395 | 1.4 | -1.3 | -1.0 | -1.0 | 3.8 | 7.7 | 4.4 | |
| WV Retiree Health Benefit Trust Fund | 437,457 | 3.4 | 410,811 | 3.4 | -3.6 | -6.1 | -6.1 | 2.0 | 8.8 | | |
| AccessWV | 2,262 | 0.0 | 2,315 | 0.0 | -0.3 | 2.4 | 2.4 | 7.0 | | | |
| Endowment Assets | 690,172 | 5.4 | 825,062 | 6.9 | | | | | | | |
| Wildlife Fund | 40,380 | 0.3 | 37,092 | 0.3 | -5.0 | -8.4 | -8.4 | 1.7 | 6.7 | 2.7 | 6.3 |
| Prepaid Tuition Trust | 84,791 | 0.7 | 74,724 | 0.6 | -4.1 | -7.1 | -7.1 | 2.7 | 8.2 | 3.7 | 6.7 |
| Revenue Shortfall Reserve Fund | 242,748 | 1.9 | 399,396 | 3.3 | -0.2 | 2.6 | 2.6 | 5.7 | 6.2 | 2.5 | |
| Revenue Shortfall Reserve Fund - Part B | 315,738 | 2.4 | 308,026 | 2.6 | -2.0 | -2.4 | -2.4 | 3.7 | 5.9 | 2.2 | |
| WV DEP Trust | 6,515 | 0.1 | 5,824 | 0.1 | -5.9 | -10.6 | -10.6 | | | | |

West Virginia Investment Management Board
 Composite Asset Allocation & Performance Net of Fees
 As of September 30, 2011

| | Asset (\$000) | % | Performance % | | | | | | |
|---|---------------|--------|---------------|---------|--------|--------|--------|--------|---------|
| | | | 1 Month | 3 Month | FYTD | 1 Year | 3 Year | 5 Year | 10 Year |
| Investment Pools Composite | 11,996,015 | 100.00 | | | | | | | |
| Total Equity Composite | 4,737,865 | 39.50 | -9.19 | -17.34 | -17.34 | -3.09 | 3.94 | -0.02 | 5.70 |
| <i>Total Equity Policy Index</i> | | | -9.43 | -17.54 | -17.54 | -5.03 | 1.32 | -1.62 | 4.90 |
| Excess Return | | | 0.24 | 0.20 | 0.20 | 1.94 | 2.62 | 1.60 | 0.80 |
| US Equity Composite | 2,424,908 | 20.21 | -8.32 | -16.09 | -16.09 | 1.59 | 1.63 | -0.82 | 4.50 |
| <i>Russell 3000 Index</i> | | | -7.76 | -15.28 | -15.28 | 0.55 | 1.45 | -0.92 | 3.48 |
| Excess Return | | | -0.56 | -0.81 | -0.81 | 1.04 | 0.18 | 0.10 | 1.02 |
| Large Cap Composite | 1,839,788 | 15.33 | -7.24 | -14.04 | -14.04 | 1.75 | 1.44 | -1.09 | 2.74 |
| <i>S&P 500 Index</i> | | | -7.03 | -13.87 | -13.87 | 1.14 | 1.23 | -1.18 | 2.82 |
| Excess Return | | | -0.21 | -0.17 | -0.17 | 0.61 | 0.21 | 0.09 | -0.08 |
| Non-Large Cap Composite | 585,120 | 4.88 | -11.54 | -21.93 | -21.93 | 2.21 | 3.28 | 0.60 | 7.76 |
| <i>Russell 2500 Index</i> | | | -10.80 | -21.22 | -21.22 | -2.22 | 2.25 | 0.19 | 7.08 |
| Excess Return | | | -0.74 | -0.71 | -0.71 | 4.43 | 1.03 | 0.41 | 0.68 |
| International Equity Composite | 2,312,957 | 19.29 | -10.09 | -18.61 | -18.61 | -7.47 | 6.01 | 1.42 | 8.13 |
| <i>MSCI AC World ex US Index</i> | | | -11.09 | -19.78 | -19.78 | -10.42 | 0.98 | -1.12 | 7.27 |
| Excess Return | | | 1.00 | 1.17 | 1.17 | 2.95 | 5.03 | 2.54 | 0.86 |
| Fixed Income Composite | 3,547,889 | 29.58 | -0.35 | 0.53 | 0.53 | 3.73 | 8.99 | 5.45 | 5.94 |
| <i>Fixed Income Policy</i> | | | 0.28 | 2.88 | 2.88 | 4.77 | 8.17 | 6.54 | 5.67 |
| Excess Return | | | -0.63 | -2.35 | -2.35 | -1.04 | 0.82 | -1.09 | 0.27 |
| Core Fixed Income | 1,229,105 | 10.25 | 0.53 | 3.52 | 3.52 | 5.77 | | | |
| <i>Barclays Capital Aggregate</i> | | | 0.73 | 3.82 | 3.82 | 5.26 | | | |
| Excess Return | | | -0.20 | -0.30 | -0.30 | 0.51 | | | |
| Total Return Fixed Income | 2,318,784 | 19.33 | -0.82 | -1.00 | -1.00 | 2.63 | 9.38 | 5.68 | 6.46 |
| <i>Barclays Capital US Universal</i> | | | 0.28 | 2.88 | 2.88 | 4.77 | 8.17 | 6.40 | 5.88 |
| Excess Return | | | -1.10 | -3.88 | -3.88 | -2.14 | 1.21 | -0.72 | 0.58 |
| TIPS Composite | 933,465 | 7.78 | -0.21 | 4.54 | 4.54 | 9.70 | | | |
| <i>Barclays Capital U.S. TIPS</i> | | | -0.24 | 4.51 | 4.51 | 9.87 | | | |
| Excess Return | | | 0.03 | 0.03 | 0.03 | -0.17 | | | |
| TRS Annuity | 105,009 | 0.88 | 0.36 | 1.12 | 1.12 | 4.49 | | | |
| Cash Composite | 238,764 | 1.98 | 0.00 | 0.01 | 0.01 | 0.11 | 0.29 | 1.91 | 2.12 |
| <i>Citigroup 90 Day T-Bill + 15 bps</i> | | | 0.01 | 0.06 | 0.06 | 0.29 | 0.37 | 1.89 | 2.17 |
| Excess Return | | | -0.01 | -0.05 | -0.05 | -0.18 | -0.08 | 0.02 | -0.05 |
| Private Equity Composite | 1,081,545 | 9.01 | -1.84 | 3.74 | 3.74 | 11.74 | 7.18 | | |
| Real Estate Composite | 287,815 | 2.40 | -1.90 | -1.86 | -1.86 | 8.82 | 2.49 | | |
| Hedge Funds Composite | 1,063,663 | 8.87 | -1.88 | -3.04 | -3.04 | 1.93 | 5.29 | | |
| <i>LIBOR + 400 bps</i> | | | 0.36 | 1.07 | 1.07 | 4.29 | 4.59 | | |
| Excess Return | | | -2.24 | -4.11 | -4.11 | -2.36 | 0.70 | | |

West Virginia Investment Management Board
 Participant Plans Allocation vs. Targets
 As of September 30, 2011

| | Domestic Equity | | Int'l Equity | | Fixed Income | | Private Equity | | Real Estate | | Hedge Funds | | Cash | |
|--|-----------------|----------|--------------|----------|--------------|----------|----------------|----------|-------------|----------|-------------|----------|----------|----------|
| | Actual % | Target % | Actual % | Target % | Actual % | Target % | Actual % | Target % | Actual % | Target % | Actual % | Target % | Actual % | Target % |

Pension Assets

| | | | | | | | | | | | | | | |
|--|------|------|------|------|------|------|------|------|-----|-----|------|------|-------|-------|
| Public Employees' Retirement System | 23.3 | 25.0 | 22.4 | 25.0 | 29.4 | 27.0 | 11.6 | 10.0 | 3.1 | 3.0 | 9.6 | 10.0 | 0.6 | 0.0 |
| Teachers' Retirement System | 23.4 | 25.0 | 22.4 | 25.0 | 29.2 | 27.0 | 11.6 | 10.0 | 3.1 | 3.0 | 9.3 | 10.0 | 1.0 | 0.0 |
| Teachers' Employers Cont. Collection A/C | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 | 100.0 |
| EMS Retirement System | 23.2 | 25.0 | 22.2 | 25.0 | 29.4 | 27.0 | 10.8 | 10.0 | 3.0 | 3.0 | 10.3 | 10.0 | 1.1 | 0.0 |
| Public Safety Retirement System | 23.8 | 25.0 | 22.4 | 25.0 | 29.4 | 27.0 | 11.4 | 10.0 | 3.1 | 3.0 | 9.7 | 10.0 | 0.2 | 0.0 |
| Judges' Retirement System | 23.8 | 25.0 | 22.3 | 25.0 | 29.3 | 27.0 | 11.3 | 10.0 | 3.0 | 3.0 | 9.9 | 10.0 | 0.4 | 0.0 |
| State Police Retirement System | 23.3 | 25.0 | 21.9 | 25.0 | 29.2 | 27.0 | 10.8 | 10.0 | 3.0 | 3.0 | 10.3 | 10.0 | 1.5 | 0.0 |
| Deputy Sheriffs' Retirement System | 23.6 | 25.0 | 22.2 | 25.0 | 29.6 | 27.0 | 11.1 | 10.0 | 3.0 | 3.0 | 10.0 | 10.0 | 0.5 | 0.0 |
| Municipal Police & Firefighter Retirement System | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 | 100.0 |

Insurance Assets

| | | | | | | | | | | | | | | |
|--|------|------|------|------|-------|-------|-----|-----|-----|-----|------|------|-----|------|
| Workers' Compensation Old Fund | 9.0 | 10.0 | 8.7 | 10.0 | 74.8 | 70.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 7.5 | 10.0 |
| Workers' Comp. Self-Insured Guaranty Risk Pool | 8.8 | 10.0 | 8.6 | 10.0 | 58.1 | 55.0 | 0.0 | 0.0 | 0.0 | 0.0 | 19.6 | 20.0 | 4.9 | 5.0 |
| Workers' Comp. Uninsured Employers Fund | 8.8 | 10.0 | 8.6 | 10.0 | 57.4 | 55.0 | 0.0 | 0.0 | 0.0 | 0.0 | 20.0 | 20.0 | 5.2 | 5.0 |
| Pneumoconiosis | 8.9 | 10.0 | 8.6 | 10.0 | 58.0 | 55.0 | 0.0 | 0.0 | 0.0 | 0.0 | 19.8 | 20.0 | 4.7 | 5.0 |
| Board of Risk & Insurance Mgmt. | 9.2 | 10.0 | 8.9 | 10.0 | 60.1 | 55.0 | 0.0 | 0.0 | 0.0 | 0.0 | 20.9 | 20.0 | 0.9 | 5.0 |
| Public Employees' Insurance Agency | 4.3 | 5.0 | 4.2 | 5.0 | 76.9 | 75.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.5 | 10.0 | 5.1 | 5.0 |
| WV Retiree Health Benefit Trust Fund | 15.9 | 17.5 | 15.3 | 17.5 | 49.0 | 45.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.8 | 20.0 | 0.0 | 0.0 |
| AccessWV | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Endowment Assets

| | | | | | | | | | | | | | | |
|---|------|------|------|------|------|-------|------|------|-----|-----|------|------|------|-----|
| Wildlife Fund | 23.4 | 25.0 | 22.3 | 25.0 | 29.8 | 27.0 | 11.3 | 10.0 | 3.1 | 3.0 | 10.0 | 10.0 | 0.1 | 0.0 |
| Prepaid Tuition Trust | 31.1 | 33.8 | 16.0 | 18.2 | 51.5 | 48.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.4 | 0.0 |
| Revenue Shortfall Reserve Fund | 0.0 | 0.0 | 0.0 | 0.0 | 81.1 | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.9 | 0.0 |
| Revenue Shortfall Reserve Fund - Part B | 8.8 | 10.0 | 8.4 | 10.0 | 82.8 | 80.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| WV DEP Trust | 34.1 | 35.0 | 26.7 | 30.0 | 39.2 | 35.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Statutory Limitations

- Public Equity - 75%
- International Proportions of Equity, Fixed Income, and Real Estate - 30%
- Real Estate - 25%
- Private Equity and Hedge Funds - 20% in aggregate

West Virginia Investment Management Board

Footnotes

As of September 30, 2011

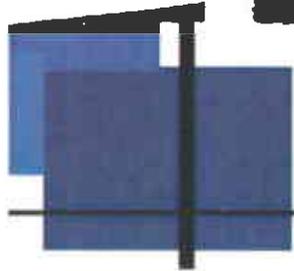
PERS Policy is 30% Russell 3000, 30% MSCI ACW ex USA, and 40% Barclays Capital Universal as of 4/1/08. Prior periods, 42% Russell 3000, 18% MSCI ACW ex USA, and 40% Barclays Capital Aggregate.

Total Equity Policy is 50% Russell 3000 and 50% MSCI ACW ex USA as of April 2008. Prior periods were 40% S&P 500, 30% Russell 2500, and 30% MSCI ACW ex USA.

Fixed Income Policy is 100% Barclays Capital Universal as of April 2008. Prior periods were the Barclays Capital Aggregate.

Western Policy Index is 100% Barclays Capital Universal as of April 2008. Prior periods were a custom index.

Returns are net of management fees. Returns shorter than one year are unannualized.



Status Report:

Workers' Compensation

Joint Committee on Government & Finance

November 2011

Provided by the West Virginia Offices of the Insurance Commissioner



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Introduction

With the passage of S.B. 1004 in January 2005, significant changes were made to workers' compensation insurance in West Virginia. The State administered monopolistic fund effectively ended when a new domestic mutual insurance company, "BrickStreet", was formed to issue workers' compensation insurance on a going forward basis. BrickStreet began writing new workers' compensation insurance liabilities effective January 2006. (They also retained the workers' compensation insurance premium and incurred liability starting in July 2005.) The West Virginia workers' compensation insurance market was later opened to competition beginning in July 2008.

At the time when the domestic mutual insurance company was formed in order to begin to privatize the workers' compensation insurance market in West Virginia, a large legacy liability existed stemming from the historical operation of the State administered monopolistic fund. Subsequent to privatization, this legacy liability was retained by the State of West Virginia in what is now known as the "Old Fund." The Old Fund consists of all historical claims with dates of injuries or last exposure through June 30, 2005. Apart from those sections which specifically reference other "funds," the "private market," or the "self-insured" community (which began in July 2004), this report concerns the workers' compensation legacy liability of the State of West Virginia, i.e. the Old Fund.

Although belonging to the State of West Virginia, the administration of the Old Fund was initially placed via statute with BrickStreet. By January 2008, however, BrickStreet relinquished the administration of the Old Fund back to the State to be managed by the West Virginia Offices of the Insurance Commissioner. The West Virginia Offices of the Insurance Commissioner contracted with three Third Party Administrators (TPA's: Sedgwick Claims Management Services, Wells Fargo Disability Management, and American Mining Insurance Company) to ensure timely claim payments and proper claims management with the ultimate goal of claim resolution.

At January 2008, there were 47,961 active Old Fund workers' compensation insurance claims. The first Workers' Compensation Status Report to the Joint Committee on Government and Finance was issued in June 2008. The following pages update the status of the various workers' compensation funds and the activities associated with the administration of the workers' compensation responsibilities transitioned to the Offices of the Insurance Commissioner.

Definitions:

Appeal (BOR): A formal procedure conducted by the Board of Review at which a decision of an administrative law judge (OOJ) having presided over a matter of workers' compensation (Old Fund or Privately Insured) is to be afforded additional consideration. An appeal may be filed by any aggrieved party, such as a claimant, employer, dependent of a claimant, private insurance carrier, etc.

Board of Review : (BOR) A three judge panel that serves as an intermediate appellate tribunal in workers' compensation litigation. Specifically, the Board of Review reviews all appeals taken from any final decision of the Office of Judges. The BOR may reverse, vacate, modify or remand a decision of the Office of Judges. Any appeal taken from a Board of Review final order must be filed with the West Virginia Supreme Court of Appeals.

Claim Reserve: individual claim level cost estimate that is projected on the ultimate probable exposure; must be the best projection based on the facts and findings of the claim. This function is to capture the key components that impact the range of any impending cost in workers' compensation claims. No discounting is applied. The Indemnity Reserve is adjusted to cover the cost of loss or exposure both on a temporary and permanent basis. The reserve should also be adjusted to include the projected cost of any death and/or dependent benefits when appropriate. The Medical Reserve covers medical cost, hospital stays, specialized treatment, rehabilitation, durable medical equipment, and medications, etc. The Expense Reserve is placed for the cost of legal defense and investigations, etc. The reserves may be reduced based on the findings of early mortality factors.

Coal Workers' Pneumoconiosis Fund: State managed fund into which FBL premiums received are held, and out of which FBL benefits are paid. This fund was closed to future liabilities as of 12/31/2005. Because of the latency period between the date of last exposure and the onset of disease, new FBL claims will occur.

Fatal: claim under which the worker died as a result of injury or illness.

FBL: claim for Occupational Pneumoconiosis (Black Lung) benefits under Title IV of the federal Coal Mine Health and Safety Act of 1969, i.e. Federal Black lung, or FBL.

Inactive FBL Claim: an FBL claim for which an award had been sought, but was not afforded. Federal statutes permit an appeal process which lasts for 1 year, so the claim would be reopened for consideration upon appeal. Some variance in the number of reported "inactive" claims has occurred in the past due to one TPA holding active reserves on "inactive" claims. This has subsequently been rectified. Denied Old Fund FBL claims are closed administratively after 6 months, as the TPA's bill for claims management services monthly on an open claims basis.

Indemnity: statutory wage replacement benefits awarded as a result of a worker's occupational illness or injury.

Med Only: claim under which only the payment of medical benefits were sought or awarded, i.e. no payment of wage replacement benefits (indemnity) is being made.

Non-FBL: claim for benefits other than a Federal Black Lung award, i.e. all other claim types.

Office of Judges: (OOJ) An office comprised of administrative law judges who are charged with resolving protests or appeals to workers' compensation claims management decisions. The Office of Judges conducts hearings, receives and weighs evidence and arguments, and issues written decisions on protests or appeals from initial claim management decisions. Any final decision of the Office of Judges may be appealed to the workers' compensation Board of Review. The OOJ hears protests involving Old Fund claims as well as those arising from the private market (private carrier or privately insured.)

OP/OD: claim of Occupational Pneumoconiosis or Occupational Disease. An OP claim could be considered the State level equivalent of an FBL claim; however, State OP claims provide for varying percentages of impairment where the FBL applicant must prove total impairment to be eligible. (State OP claims are awarded more frequently than FBL, but afford lesser benefits.) An example of an OD claim would be occupational hearing loss.

Partial Award: claim for which benefits are being paid, but no official award has been made.

Payment Agreement: individual legal agreements that were made in order to settle a particular payment issue on a specific claim. These are different than your "standard" claim types, such as PTD or TPD. They identify a sub-set of claims that are not settled in the same philosophy that is practiced today. This normally references a situation in which a PT was granted years ago and the "onset" date was in litigation. A compromise was reached and a settlement was executed to the agreed up "onset" date. Although a settlement was executed, it was only applicable to an issue, not to the entire claim, so monthly payments continue to pay on these claims.

Protest (OOJ): An objection to a ruling of a workers' compensation claim administrator (Old Fund or Private Market) which prompts the initiation of the adjudication process at the Office of Judges.

PPD: (Permanent Partial Disability) paid to compensate an injured worker for permanent impairment that results from an occupational injury or disease. The American Medical Association defines permanent impairment as impairment that has become static or well stabilized with or without medical treatment and is not likely to remit despite medical treatment. It should be noted, some injuries that are total loss by severance have statutory impairment ratings that are defined per WV Code §23-4-6(f). Payment for PPD is based upon 4 weeks of compensation for each one percent of disability.

PTD: (Permanent Total Disability) A disability which renders a claimant unable to engage in gainful employment requiring skills or abilities which can be acquired or which are comparable to those of any gainful employment in which the claimant previously engaged with some regularity. While the comparison of pre-injury income and post-disability income is not a factor to be considered in determining whether or not a claimant is permanently and totally disabled, the geographic availability of gainful employment should be considered. Specifically, the geographic availability

of gainful employment within a 75 mile driving distance of the claimant's home, or within the distance from the claimant's home to his or her pre-injury employment, whichever is greater, is a factor to be considered in determining whether or not a claimant is PTD.

Self-Insured: an employer who has met certain specific guidelines, and who is then permitted to guarantee their own payment and handling of workers' compensation claims to their employees in accordance with WV statutes.

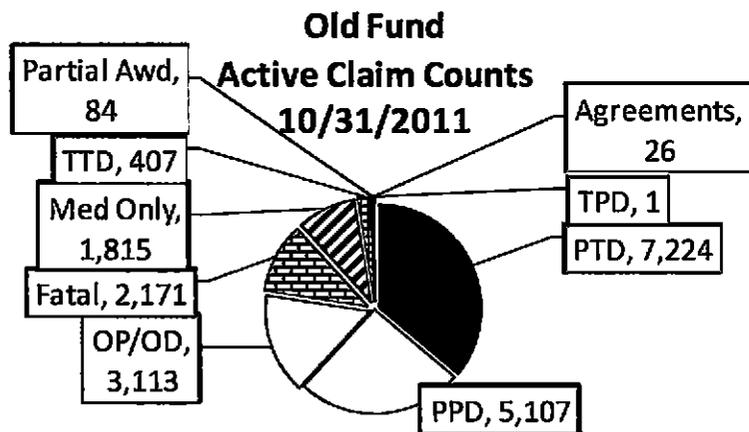
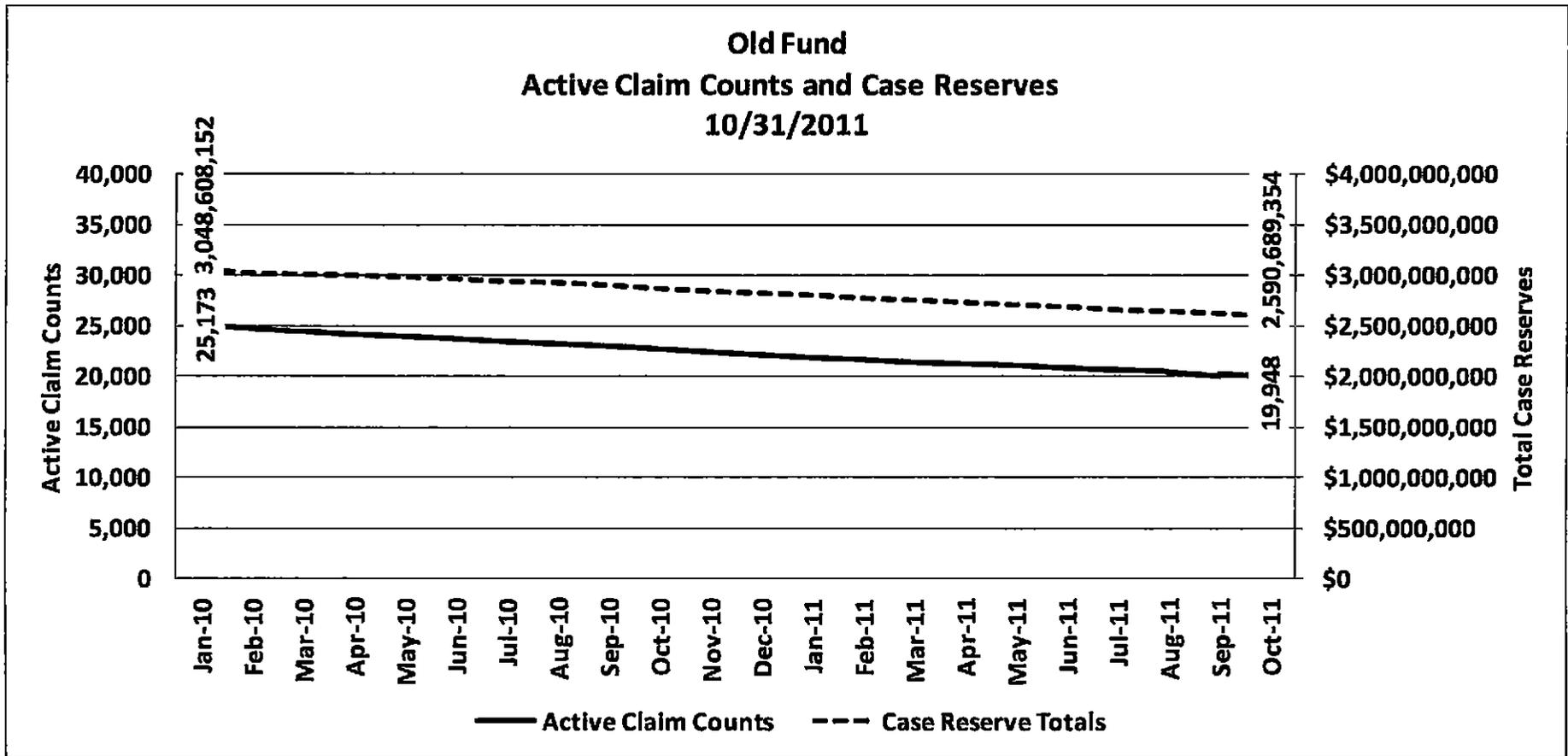
Self-Insured Guaranty Fund: State managed fund into which premiums received are held, and out of which workers' compensation benefits may be paid. Covers claims liabilities of bankrupt or defaulted self-insured employers with dates of injury or last exposure after 07/01/2004.

Self-Insured Security Fund: State managed fund into which premiums received are held, and out of which workers' compensation benefits may be paid. Covers claims liabilities of bankrupt or defaulted self-insured employers with dates of injury or last exposure before 07/01/2004. This fund is limited to claimants of those self-insured employers who have defaulted on their claims obligations after 12/31/2005.

TPD: (Temporary Partial Disability) also referred to as TPR, is paid when an injured worker is released to return to work with restrictions or modifications that restrict he/she from obtaining their pre-injury wages. The TPD benefit is paid at seventy percent of the difference between the average weekly wage earnings earned at the time of injury and the average weekly wage earnings earned at the new employment.

TTD: (Temporary Total Disability) an inability to return to substantial gainful employment requiring skills or activities comparable to those of one's previous gainful employment during the healing or recovery period after the injury. In order to receive TTD benefits, the injured worker must be certified disabled due to the compensable injury by his/her treating physician.

Uninsured Fund: State managed fund into which assessments to carriers or employers received are held, and out of which workers' compensation benefits may be paid to claimant employees of employers who were uninsured if the date of injury or date of last exposure is January 1, 2006 or later.



Agreements – a legal agreement to settle a payment issue

Fatal – worker died due to injury or illness

Med Only – payment of medical benefits without wage replacement

OP/OD - Occupational Pneumoconiosis or Occupational Disease

Partial Awd – benefits being paid without official awards

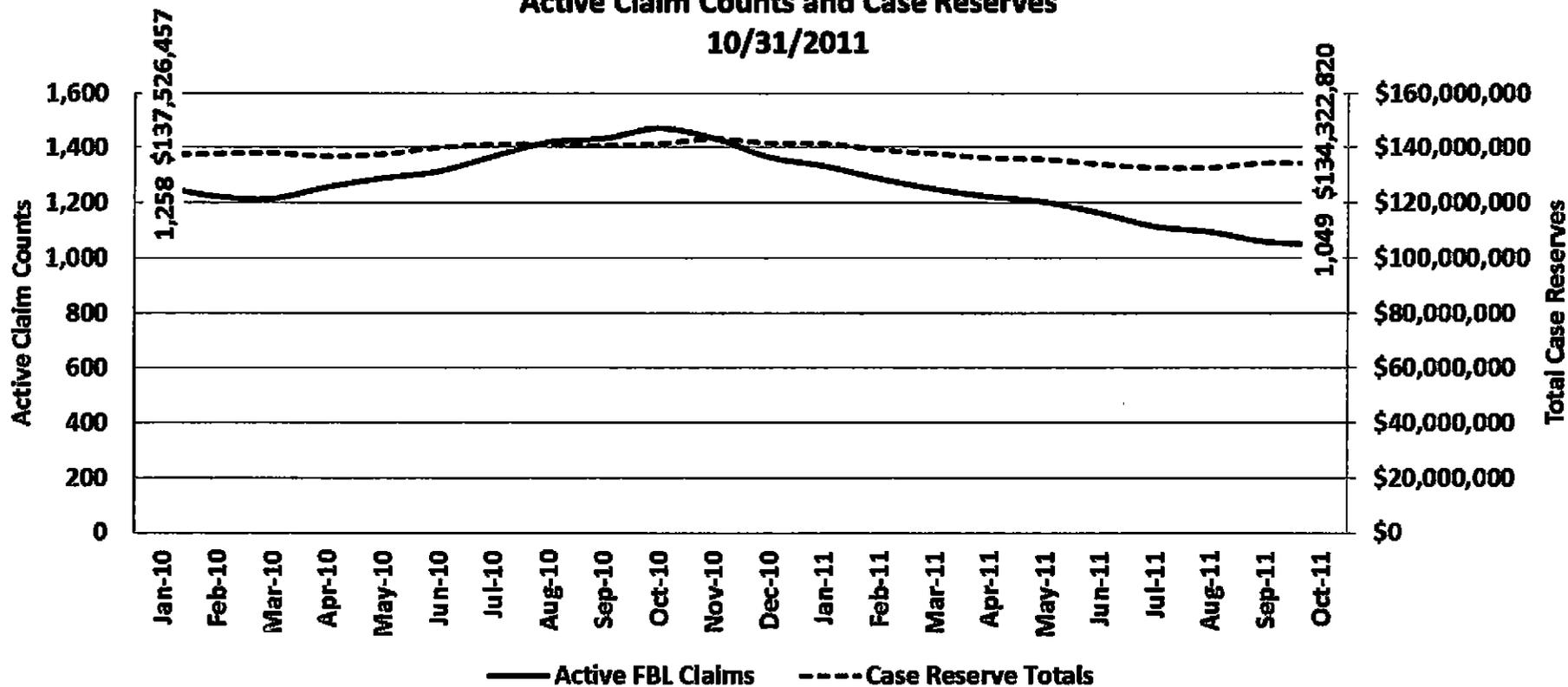
PPD - Permanent Partial Disability; unlikely to improve with treatment

PTD - Permanent Total Disability; unable to engage in employment

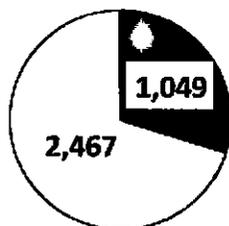
TPD - Temporary Partial Disability released to work with restrictions

TTD - Temporary Total Disability; unable to engage in employment

**CWP Fund (FBL)
Active Claim Counts and Case Reserves
10/31/2011**



**CWP Fund (FBL)
Active and Inactive Claims
10/31/2011**



■ Active □ Inactive

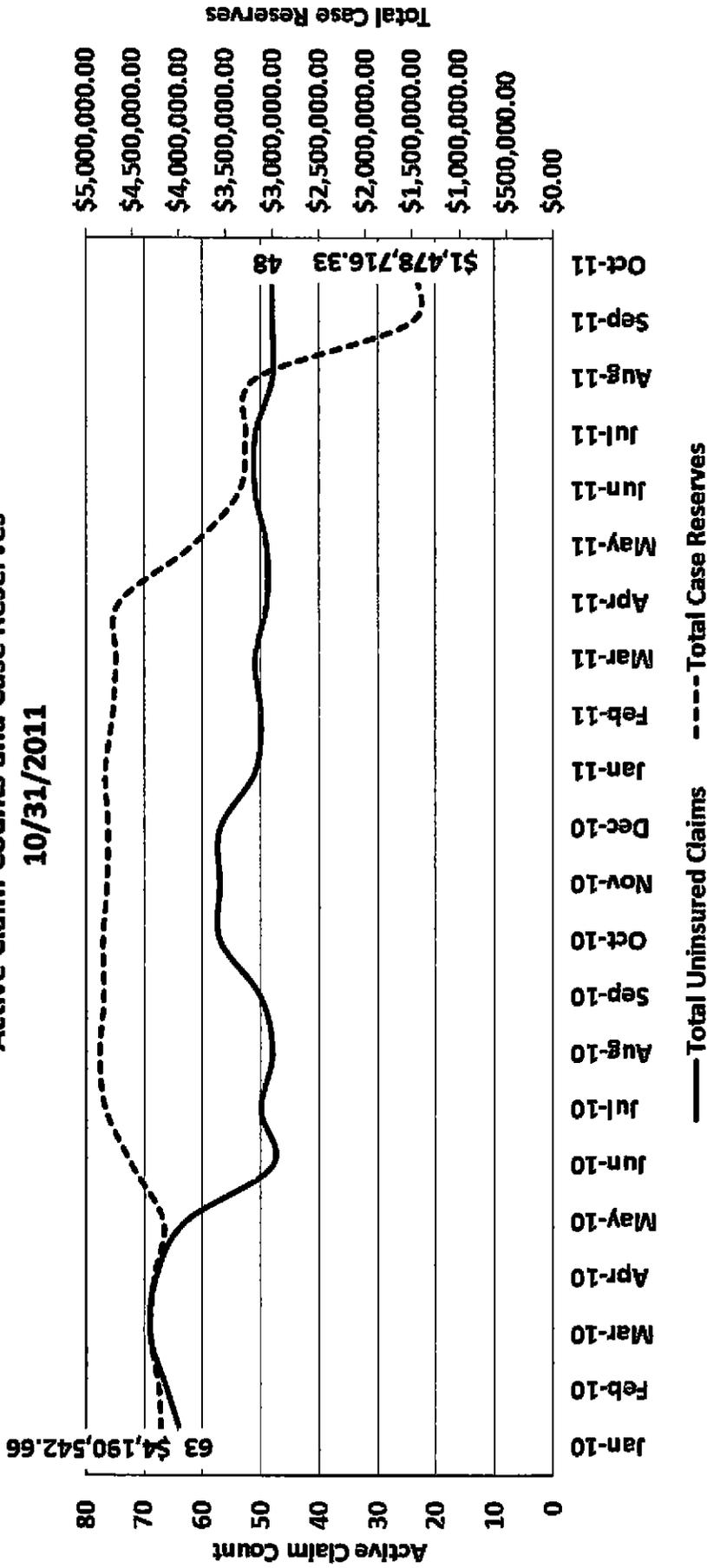
Active – Benefits being paid to claimant/beneficiary

CWP Fund - Coal Worker's Pneumoconiosis; miners/beneficiaries disabled or deceased

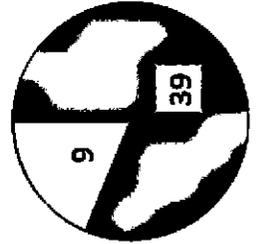
FBL - Occupational Pneumoconiosis (Black Lung) under Title IV of the federal Coal Mine Health and Safety Act of 1969, i.e. Federal Black lung, or FBL.

Inactive – claim for which an award was sought, but not afforded. Federal statutes permit an appeal, so claim may be reopened

Uninsured Fund Active Claim Counts and Case Reserves 10/31/2011



Uninsured Fund Active Claim Counts 10/31/2011

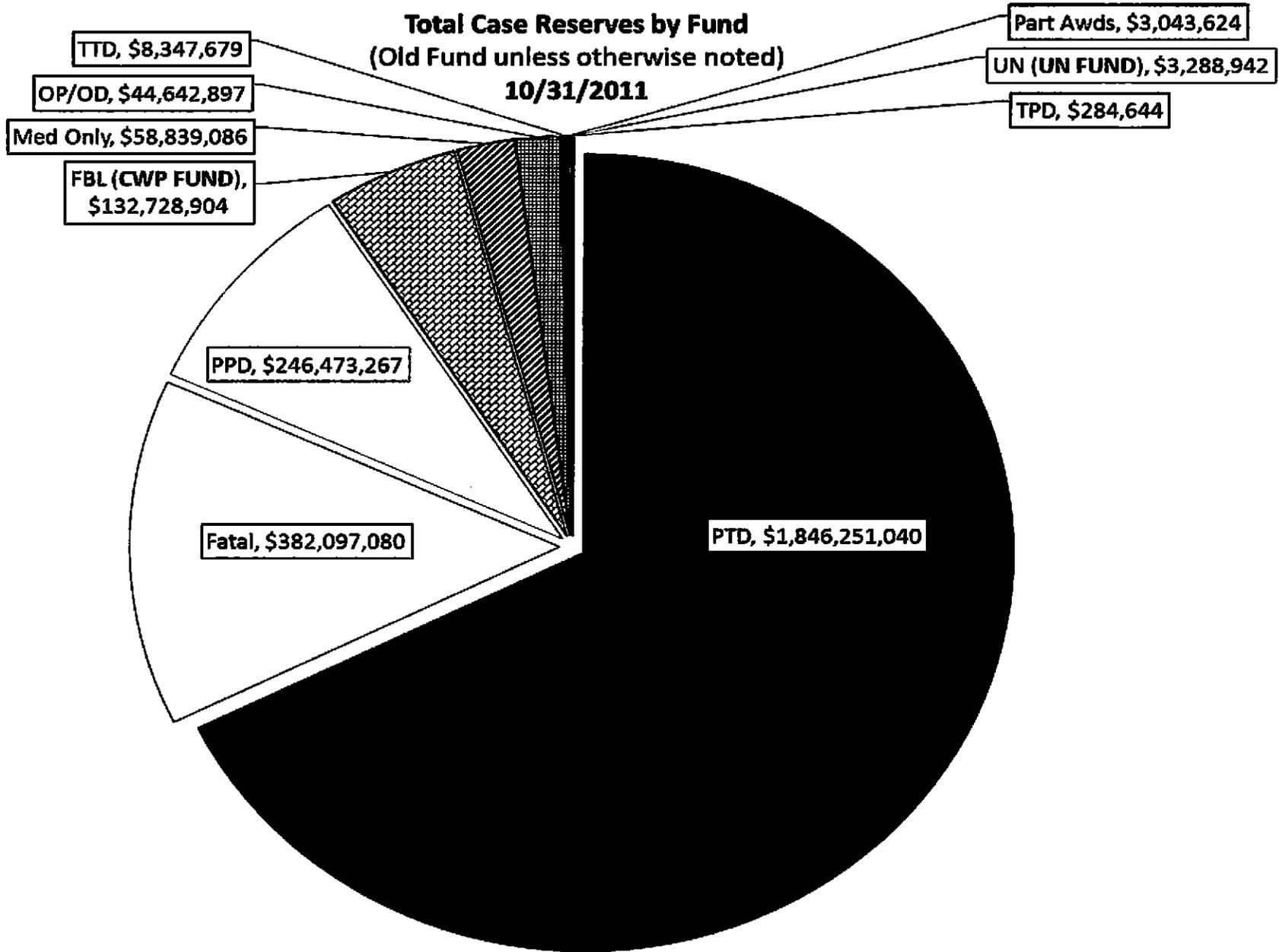


■ Indemnity □ Med Only

Indemnity – statutory wage replacement and medical benefits awarded

Med Only – payment of medical benefits without wage replacement

Uninsured (Employer's) Fund - (UEF) established January 1, 2006 to provide worker's compensation benefits to injured workers of uninsured WV employers. The Commissioner may recover all payments made from this fund, including interest, from an uninsured employer who is found liable for benefits paid from the UEF.



OLD FUND CASH STATEMENT

October 31, 2011

| | YTD FY2012 | YTD FY2011 | Change | Three Year History for years ended: | | |
|--|---------------------|--------------------|---------------------|-------------------------------------|--------------------|--------------------|
| | | | | FY2011 | FY2010 | FY2009 |
| Cash Beginning Balances | 943,172,539 | 888,535,954 | 54,636,585 | 888,535,954 | 795,869,972 | 734,195,514 |
| Revenues | | | | | | |
| Personal Income Tax | 10,600,000 | 10,600,000 | - | 95,400,000 | 95,400,000 | 95,400,000 |
| Severance Tax | 32,116,230 | 27,282,445 | 4,833,784 | 93,112,747 | 91,573,307 | 125,672,963 |
| Debt Reduction Surcharge | 18,869,725 | 20,432,718 | (1,562,992) | 41,096,360 | 39,594,122 | 40,115,329 |
| Self-Insured Debt Reduction Surcharge | 2,587,344 | 2,475,327 | 112,017 | 8,058,590 | 6,562,051 | 6,568,235 |
| Video Lottery | 11,000,000 | 11,000,000 | - | 11,000,000 | 11,000,000 | 11,000,000 |
| Employer Premium | 161,209 | 2,531,792 | (2,370,584) | 3,120,389 | 1,783,840 | 2,945,069 |
| Other Income - Return of Unclaimed Property | 45,924 | 8,224 | 37,700 | 191,860 | 95,620 | 39,392 |
| Operating Revenues | 75,380,431 | 74,330,506 | 1,049,925 | 251,979,946 | 246,008,940 | 281,740,988 |
| Surplus Note Principal Payments | - | - | - | - | 43,500,000 | 145,000,000 |
| Investment / Interest Earnings (Losses) | (28,758,467) | 37,724,989 | (66,483,455) | 88,270,887 | 102,218,697 | (94,861,549) |
| Total Revenues | 46,621,965 | 112,055,495 | (65,433,530) | 340,250,833 | 391,727,637 | 331,879,439 |
| Expenditures | | | | | | |
| Claims Benefits Paid: | | | | | | |
| Medical | 12,650,081 | 14,902,512 | (2,252,431) | 41,972,430 | 55,134,617 | 49,512,377 |
| Permanent Total Disability | 42,947,428 | 46,419,254 | (3,471,826) | 136,800,060 | 152,789,051 | 150,152,910 |
| Permanent Partial Disability | 818,910 | 975,277 | (156,367) | 2,513,255 | 4,890,325 | 8,171,853 |
| Temporary Disability | 83,077 | 188,580 | (105,503) | 384,571 | 1,322,403 | 2,033,710 |
| Fatals | 9,593,759 | 10,097,195 | (503,437) | 29,994,599 | 34,822,223 | 32,537,625 |
| 104 weeks death benefit | 2,352,871 | 2,001,753 | 351,118 | 6,321,554 | 6,394,618 | 6,615,381 |
| Settlements | 18,010,268 | 19,888,743 | (1,878,476) | 50,628,569 | 24,145,535 | 3,219,641 |
| Loss Adjustment Expenses | 748,347 | 1,682,535 | (934,188) | 4,514,323 | 3,794,198 | 2,047,418 |
| Total | 87,204,741 | 96,155,850 | (8,951,109) | 273,129,360 | 283,292,970 | 254,290,915 |
| Less: Claims credits and overpayments | 3,364,917 | 2,576,077 | 788,839 | 7,666,404 | 4,327,846 | 2,612,892 |
| Total Benefits Paid | 83,839,824 | 93,579,773 | (9,739,949) | 265,462,956 | 278,965,124 | 251,678,023 |
| Administrative Expenses | 5,202,273 | 5,894,442 | (692,169) | 20,151,292 | 20,096,531 | 20,473,309 |
| Total Expenditures | 89,042,097 | 99,474,215 | (10,432,118) | 285,614,248 | 299,061,655 | 272,151,332 |
| Closing Transfer from Private Carrier Fund | | | | | | 1,946,351 |
| Excess (Deficiency) of Revenues over Expenditures | (42,420,133) | 12,581,280 | (55,001,412) | 54,636,585 | 92,665,982 | 61,674,458 |
| Cash Ending Balances | 900,752,406 | 901,117,234 | (364,827) | 943,172,539 | 888,535,954 | 795,869,972 |

Note: The purpose of the report is to enhance the user's ability to monitor the cash activities of the Old Fund. The Old Fund assets consist of the Old Fund cash, IMB and BTI Investment accounts and any deposits in transit from the Debt Reduction Fund. The liabilities of the Old Fund consist of the worker's compensation claims and related expenses for all claims, actual and incurred but not reported for claims with dates of injury on or before June 30, 2005. This report is intended to provide a summary of the cash based transactions related to the Fund's assets and liabilities and is not an accrual based presentation. The Old Fund Cash Statement is unaudited information.

COAL WORKERS' PNEUMOCONIOSIS FUND

October 31, 2011

| | YTD FY2012 | YTD FY2011 | Change | Three Year History for years ended: | | |
|--|---------------------|--------------------|---------------------|-------------------------------------|--------------------|---------------------|
| | | | | FY2011 | FY2010 | FY2009 |
| Cash Beginning Balances | 262,926,105 | 244,074,613 | 18,851,492 | 244,074,613 | 221,866,212 | 261,695,430 |
| Revenues | | | | | | |
| Investment Earnings (Losses) | (10,099,677) | 12,005,583 | (22,105,261) | 29,283,335 | 32,224,147 | (28,434,390) |
| Other Income - Return of Unclaimed Property | - | - | - | - | 899 | 132 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Revenues | (10,099,677) | 12,005,583 | (22,105,261) | 29,283,335 | 32,225,046 | (28,434,258) |
| Expenditures | | | | | | |
| Payment of Claims | 3,696,177 | 3,253,885 | 442,292 | 10,415,160 | 9,978,121 | 11,395,319 |
| Contractual / Professional | 16,682 | 13,391 | 3,291 | 16,683 | 38,524 | (359) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Expenditures | 3,712,859 | 3,267,276 | 445,583 | 10,431,843 | 10,016,645 | 11,394,960 |
| Excess (Deficiency) of Revenues over Expenditures | (13,812,536) | 8,738,307 | (22,550,843) | 18,851,492 | 22,208,401 | (39,829,218) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Cash Ending Balances | 249,113,569 | 252,812,920 | (3,699,351) | 262,926,105 | 244,074,613 | 221,866,212 |

Note: The Coal Worker's Pneumoconiosis Fund (CWP Fund) ceased operations December 31, 2005 and is in run-off status under the administrative oversight of the Insurance Commissioner. Established in 1973, the CWP Fund existed to provide insurance coverage to companies for liabilities incurred as a result of the Federal Coal Mine Health and Safety Act of 1969. Participation in the CWP Fund was voluntary for employers. The current revenues of the CWP Fund are limited to the earnings from invested assets. The liabilities of the CWP Fund consist of the claims for coal miners who are totally disabled or beneficiaries of coal miners who have died as a result of coal worker's pneumoconiosis. To be eligible for benefits from the CWP Fund, the date of last exposure of the coal miner must be on or before December 31, 2005. The Coal Workers Cash Statement is unaudited information.

SELF-INSURED GUARANTY RISK POOL
October 31, 2011

| | YTD FY2012 | YTD FY2011 | Change | FY2011 | FY2010 | FY2009 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash Beginning Balances | 9,744,809 | 8,112,918 | 1,631,891 | 8,112,918 | 6,969,307 | 5,177,977 |
| Revenues | | | | | | |
| Guaranty Risk Pool Assessments | 327,885 | 422,032 | (94,147) | 1,119,674 | 1,283,687 | 1,767,189 |
| Investment Earnings (Losses) | (380,451) | 3,730 | (384,181) | 592,165 | 9,237 | 68,517 |
| Total Revenues | (52,566) | 425,762 | (478,328) | 1,711,839 | 1,292,924 | 1,835,706 |
| Expenditures | | | | | | |
| Payment of Claims | 7,611 | 12,928 | (5,317) | 28,707 | 104,821 | 44,376 |
| Contractual / Professional | 58,171 | 6,459 | 51,712 | 51,241 | 44,492 | - |
| Total Expenditures | 65,782 | 19,387 | 46,395 | 79,948 | 149,313 | 44,376 |
| Excess (Deficiency) of Revenues over Expenditures | (118,348) | 406,375 | (524,723) | 1,631,891 | 1,143,611 | 1,791,330 |
| Cash Ending Balances | 9,626,461 | 8,519,293 | 1,107,168 | 9,744,809 | 8,112,918 | 6,969,307 |

The Self-Insured Guaranty Risk Pool covers the claims liabilities of bankrupt or defaulted self-insured employers with dates of injury subsequent to July 1, 2004. The revenues of the Self-Insured Guaranty Fund are comprised of the guaranty risk pool assessments levied on all self-insured employers and the earnings on invested assets. The Self Insured Guaranty Cash Statement is unaudited information.

SELF-INSURED SECURITY RISK POOL
October 31, 2011

| | YTD FY2012 | YTD FY2011 | Change | Three Year History for years ended: | | |
|--|----------------|----------------|-----------------|-------------------------------------|----------------|----------|
| | | | | FY2011 | FY2010 | FY2009 |
| Cash Beginning Balances | 205,705 | 173,041 | 32,664 | 173,041 | - | - |
| Revenues | | | | | | |
| Security Risk Pool Assessments | - | 98,830 | (98,830) | 115,568 | 173,041 | - |
| Total Revenues | - | 98,830 | (98,830) | 115,568 | 173,041 | - |
| Expenditures | | | | | | |
| Payment of Claims | 1,649 | 73,580 | (71,931) | 73,649 | - | - |
| Contractual / Professional | - | 9,255 | (9,255) | 9,255 | - | - |
| Total Expenditures | 1,649 | 82,835 | (81,186) | 82,904 | - | - |
| Excess (Deficiency) of Revenues over Expenditures | (1,649) | 15,995 | (17,644) | 32,664 | 173,041 | - |
| Cash Ending Balances | 204,055 | 189,036 | 15,020 | 205,705 | 173,041 | - |

The Self-Insured Security Risk Pool is liable for the worker's compensation claims of bankrupt or defaulted self-insured employers with dates of injury prior to July 1, 2004. However, the obligations of this Fund are limited to the exposures of self-insured employers who default subsequent to December 31, 2005. The Self Insured Security Cash Statement is unaudited information.

UNINSURED EMPLOYERS' FUND
October 31, 2011

| | YTD FY2012 | YTD FY2011 | Change | FY2011 | FY2010 | FY2009 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash Beginning Balances | 9,086,330 | 8,905,444 | 180,886 | 8,905,444 | 8,588,268 | 8,164,225 |
| Revenues | | | | | | |
| Fines and Penalties | 271,970 | 293,013 | (21,042) | 939,626 | 892,806 | 977,167 |
| Investment Earnings (Losses) | (150,619) | 4,046 | (154,665) | 474,728 | 10,923 | 100,907 |
| Total Revenues | <u>121,351</u> | <u>297,059</u> | <u>(175,707)</u> | <u>1,414,354</u> | <u>903,729</u> | <u>1,078,074</u> |
| Expenditures | | | | | | |
| Payment of Claims | 136,891 | 199,028 | (62,136) | 1,224,982 | 577,819 | 654,031 |
| Contractual/Professional | 1,261 | 1,394 | (133) | 8,486 | 8,734 | - |
| Total Expenditures | <u>138,152</u> | <u>200,422</u> | <u>(62,269)</u> | <u>1,233,468</u> | <u>586,553</u> | <u>654,031</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>(16,801)</u> | <u>96,637</u> | <u>(113,438)</u> | <u>180,886</u> | <u>317,176</u> | <u>424,043</u> |
| Cash Ending Balances | <u>9,069,530</u> | <u>9,002,081</u> | <u>67,449</u> | <u>9,086,330</u> | <u>8,905,444</u> | <u>8,588,268</u> |

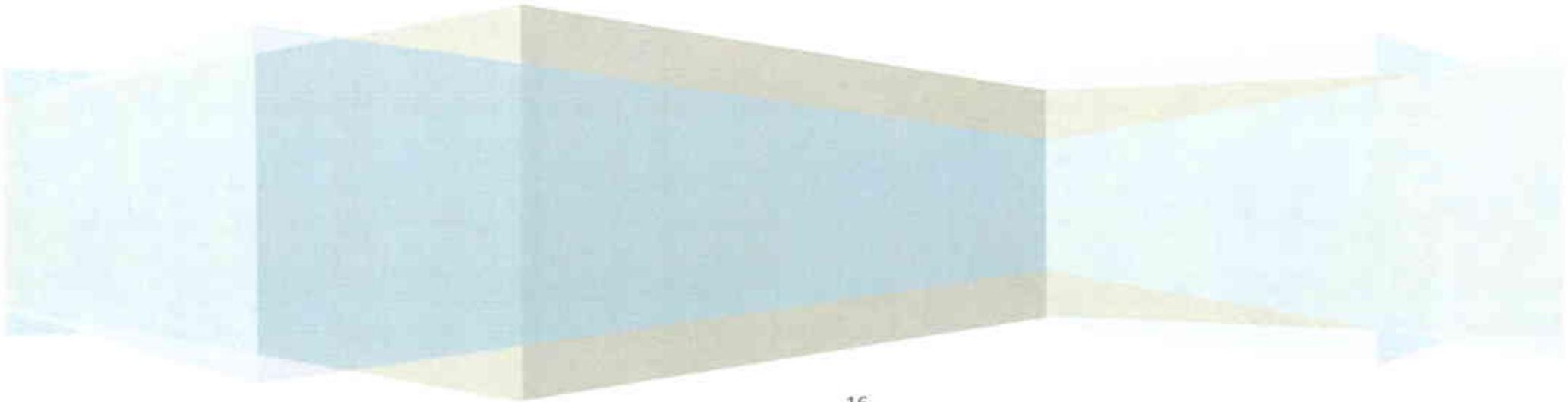
The Uninsured Employer's Fund (UEF) was established January 1, 2006 to provide worker's compensation benefits to injured workers of uninsured WV employers. The revenues of the UEF consist of fines levied on uninsured employers and the earnings on invested assets. The Insurance Commissioner has the right to levy assessments on employers in order to maintain the solvency of the Fund. The Commissioner may recover all payments made from this fund, including interest, from an uninsured employer who is found liable for benefits paid from the UEF. The Uninsured Cash Statement is unaudited information.

West Virginia Offices of the Insurance Commission

OFFICE OF JUDGES' REPORT

TO INDUSTRIAL COUNCIL – November 3, 2011

Rebecca A. Roush, Chief Administrative Law Judge

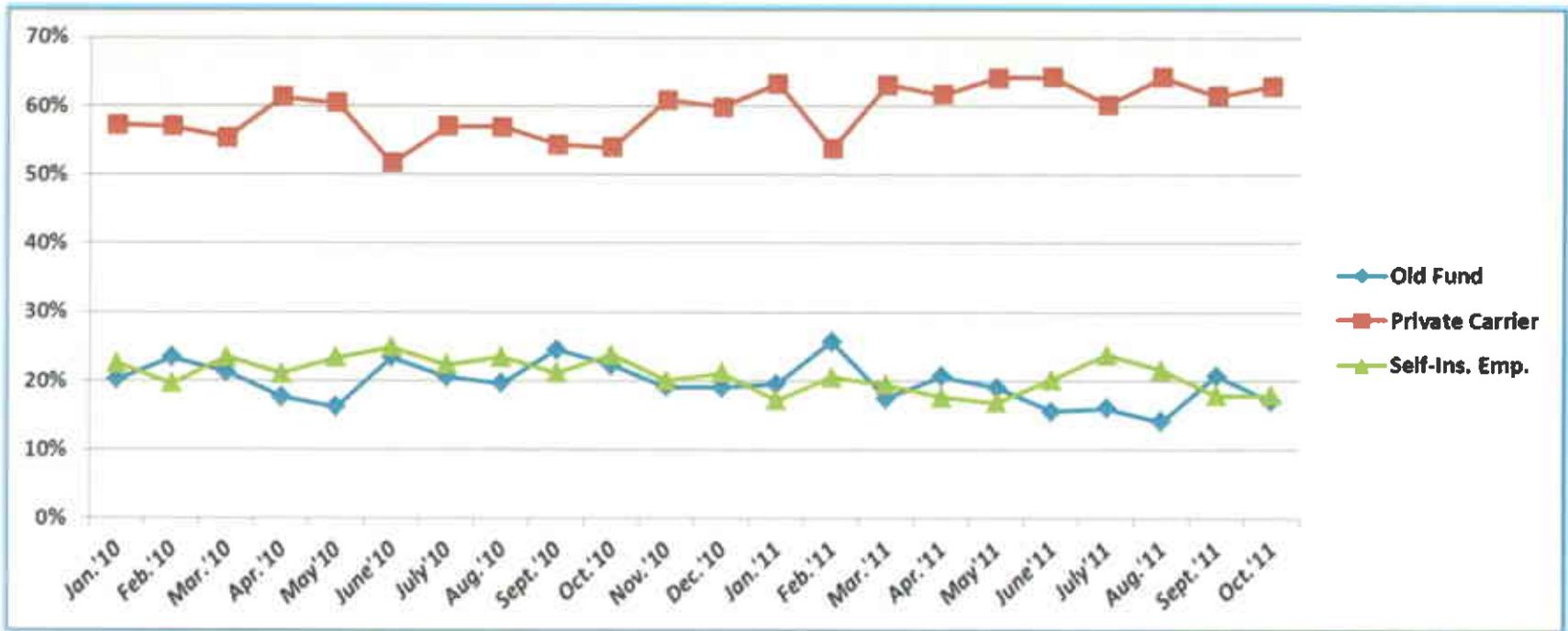


Statistical Analysis

A. **Protests Acknowledged:** 2010 Oct. 2011
 5052 434 4259

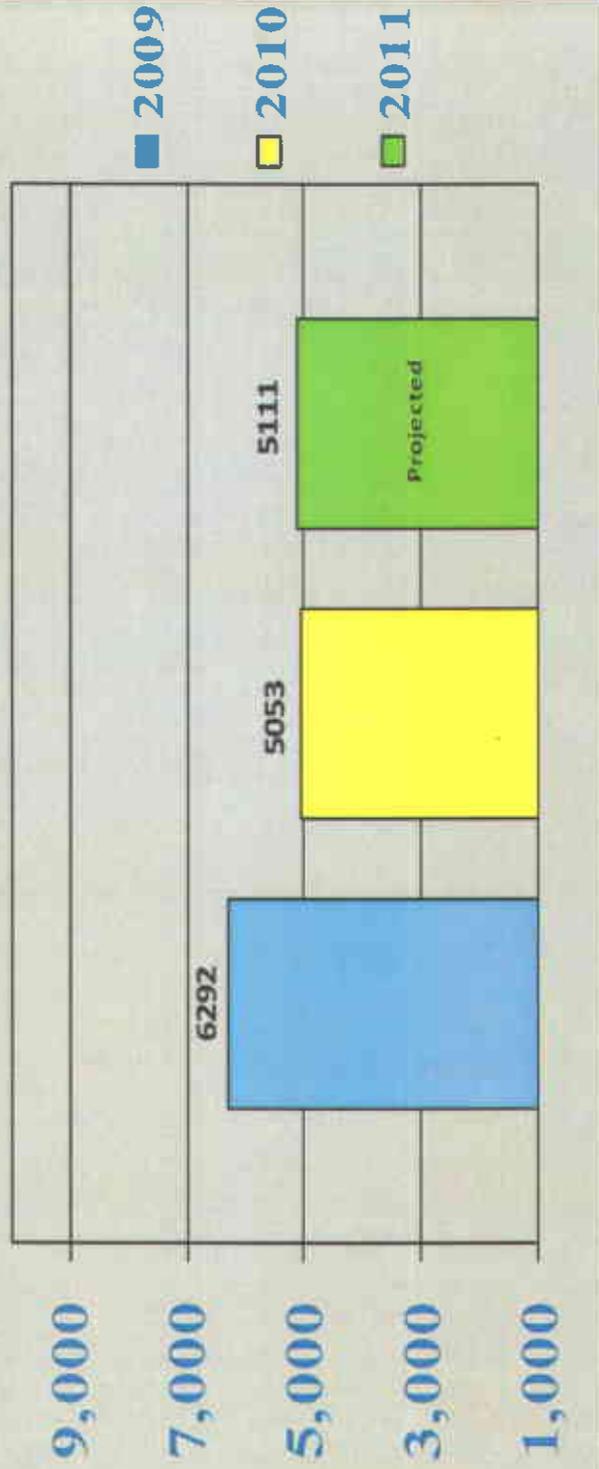
Fund Involved:

| FUND | 2010 | % of protests | Oct.'11 2011 | % of protests | 2011 | % of protests |
|-----------------|------|---------------|--------------|---------------|------|---------------|
| Old Fund | 1045 | 20.68% | 74 | 17.05% | 787 | 18.48% |
| Private Carrier | 2885 | 57.11% | 273 | 62.90% | 2659 | 62.43% |
| Self-Insured | 1122 | 22.21% | 87 | 20.05% | 813 | 19.09% |
| Subtotal | 5052 | | 434 | | 4259 | |
| Temporary | 997 | | 66 | | 903 | |
| Total | 6049 | | 500 | | 5162 | |

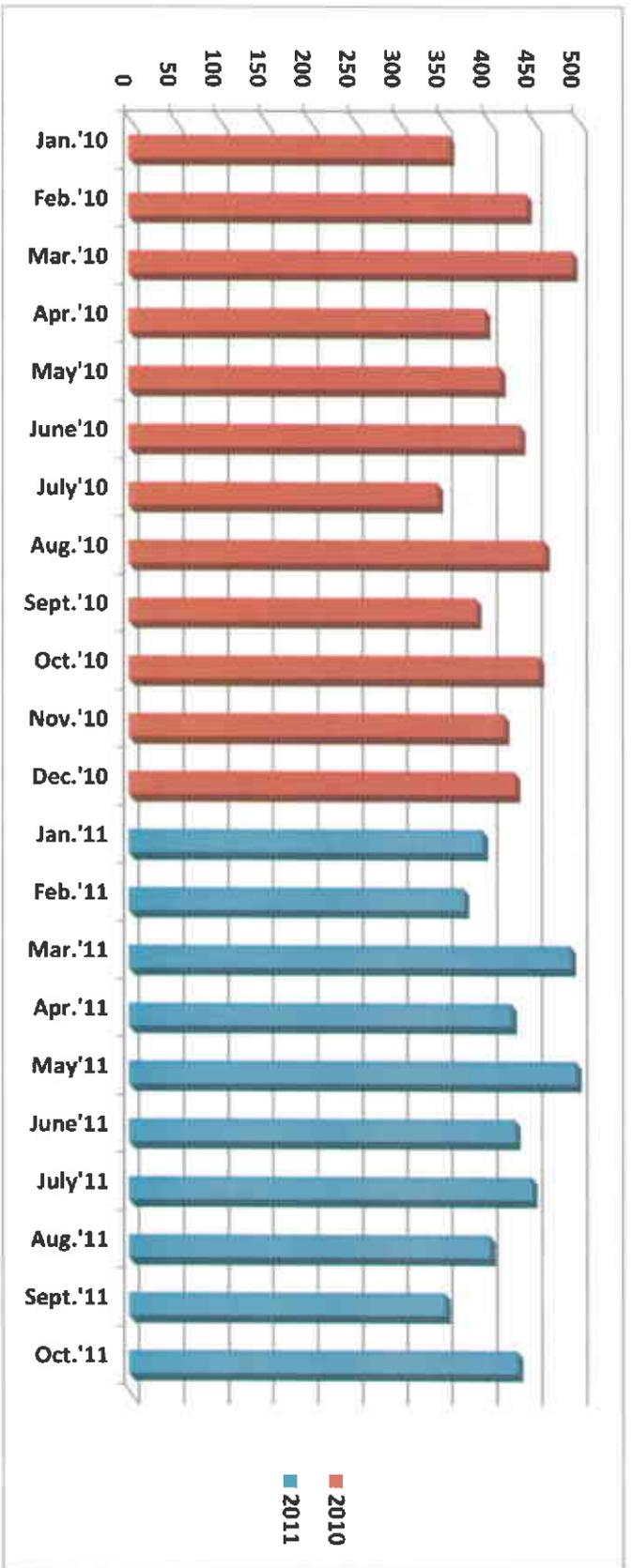


Protests Acknowledged by Carrier Type

PROTESTS PER CALENDAR YEAR



Protests Including Projection for 2011

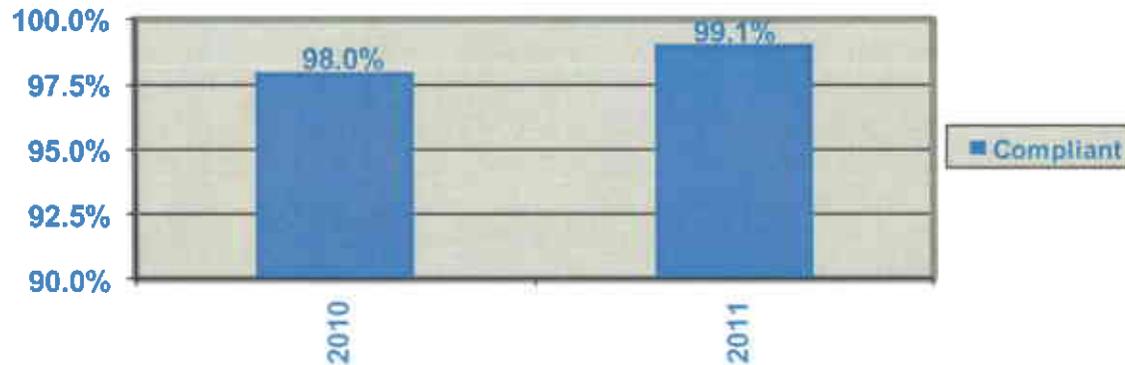


Protests Acknowledged by Month

| | | <u>Oct. '11</u> | <u>2011</u> |
|-----------|------------------------------|-----------------|-------------|
| E. | Protests Resolved: | | |
| | 1. Protests decided: | 261 | 2856 |
| | 2. Withdrawals: | 68 | 690 |
| | 3. "No Evidence" Dismissals: | 67 | 524 |

| | | <u>2010</u> | <u>Oct. '11</u> | <u>2011</u> |
|-----------|----------------------------------|-------------|-----------------|-------------|
| F. | Final Decision Timeliness | | | |
| | 1. <30 days: | 45.4% | 40.9% | 43.4% |
| | 2. 30-60 days: | 34.2% | 55.7% | 48.7% |
| | 3. 60-90 days: | 18.4% | 3.4% | 7.0% |
| | 4. +90 days: | 2.0% | 0.0% | 0.9% |

Decision Within Rule's Time Limits



| G. | Time Standard Compliance | <u>2010</u> | <u>Oct.</u> | <u>2011</u> |
|-----------|---------------------------------|-------------|-------------|-------------|
| | | 88.2% | 95.4% | 92.0% |

Tuesday, November 01, 2011

Time Standard Compliance

Report Dates: From 10/1/2011 thru 10/31/2011

| Time Standard | Total Closed | Timely | | Late | |
|-----------------------|--------------|------------|--------------|----------|-------------|
| | | Count | Percent | Count | Percent |
| APPLICATION THRESHOLD | 1 | 1 | 100% | 0 | 0% |
| COMPENSABILITY | 35 | 33 | 94.3% | 2 | 5.7% |
| REHABILITATION | 2 | 2 | 100% | 0 | 0% |
| REOPENING | 8 | 7 | 87.5% | 1 | 12.5% |
| TTD | 18 | 16 | 88.9% | 2 | 11.1% |
| IEB DETERMINATION | 1 | 1 | 100% | 0 | 0% |
| OPBD | 10 | 10 | 100% | 0 | 0% |
| PPD | 46 | 46 | 100% | 0 | 0% |
| PTD ENTITLEMENT | 1 | 1 | 100% | 0 | 0% |
| SPECIAL CATEGORY | 2 | 2 | 100% | 0 | 0% |
| TRMT/EQUIP CL | 51 | 48 | 94.1% | 3 | 5.9% |
| Total | 175 | 167 | 95.4% | 8 | 4.6% |

Tuesday, November 01, 2011

Final Decision Compliance

Report Dates: From 10/1/2011 thru 10/31/2011

| Description | Issues Resolved | Days to Decision | | | | | | | |
|-----------------------|-----------------|------------------|--------------|------------|--------------|----------|-------------|----------|-------------|
| | | < 30 Days | | 30 - 60 | | 61 - 90 | | > 90 | |
| | | Count | % | Count | % | Count | % | Count | % |
| COMPENSABILITY | 69 | 31 | 44.9% | 38 | 55.1% | 0 | 0.0% | 0 | 0.0% |
| DEP BEN FATAL | 4 | 3 | 75.0% | 1 | 25.0% | 0 | 0.0% | 0 | 0.0% |
| FAILURE TO ACT 30 DAY | 4 | 0 | 0.0% | 1 | 25.0% | 3 | 75.0% | 0 | 0.0% |
| IEB DETERMINATION | 2 | 1 | 50.0% | 1 | 50.0% | 0 | 0.0% | 0 | 0.0% |
| OP NON-MED | 1 | 1 | 100.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| OPBD | 16 | 10 | 62.5% | 6 | 37.5% | 0 | 0.0% | 0 | 0.0% |
| PPD | 37 | 14 | 37.8% | 21 | 56.8% | 2 | 5.4% | 0 | 0.0% |
| SPECIAL CATEGORY | 1 | 1 | 100.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| TRMT/EQUIP CL | 89 | 34 | 38.2% | 54 | 60.7% | 1 | 1.1% | 0 | 0.0% |
| FAILURE TO ACT 15 DAY | 5 | 0 | 0.0% | 2 | 40.0% | 3 | 60.0% | 0 | 0.0% |
| PTD ENTITLEMENT | 2 | 0 | 0.0% | 2 | 100.0% | 0 | 0.0% | 0 | 0.0% |
| REHABILITATION | 2 | 1 | 50.0% | 1 | 50.0% | 0 | 0.0% | 0 | 0.0% |
| REOPENING | 9 | 2 | 22.2% | 7 | 77.8% | 0 | 0.0% | 0 | 0.0% |
| TTD | 23 | 10 | 43.5% | 13 | 56.5% | 0 | 0.0% | 0 | 0.0% |
| Totals | 264 | 108 | 40.9% | 147 | 55.7% | 9 | 3.4% | 0 | 0.0% |

Tuesday, November 01, 2011

Motion Resolution Compliance

Report Dates: From 10/1/2011 thru 10/31/2011

| Time Standard | Total Motions | Timely * | | Late ** | |
|-----------------------|---------------|------------|--------------|-----------|-------------|
| | | Count | Percent | Count | Percent |
| BENEFIT OVERPAYMENT | 3 | 3 | 100% | 0 | 0% |
| BENEFIT RATE | 3 | 3 | 100% | 0 | 0% |
| COMPENSABILITY | 203 | 193 | 95.1% | 10 | 4.9% |
| DEP BEN FATAL | 14 | 14 | 100% | 0 | 0% |
| FAILURE TO ACT 30 DAY | 2 | 2 | 100% | 0 | 0% |
| IEB DETERMINATION | 5 | 5 | 100% | 0 | 0% |
| OP NON-MED | 3 | 3 | 100% | 0 | 0% |
| PPD | 165 | 161 | 97.6% | 4 | 2.4% |
| PTD ENTITLEMENT | 5 | 5 | 100% | 0 | 0% |
| TEMP | 2 | 2 | 100% | 0 | 0% |
| APPLICATION THRESHOLD | 2 | 2 | 100% | 0 | 0% |
| OPBD | 36 | 35 | 97.2% | 1 | 2.8% |
| PTD ONSET DATE | 6 | 6 | 100% | 0 | 0% |
| REHABILITATION | 1 | 1 | 100% | 0 | 0% |
| REOPENING | 29 | 27 | 93.1% | 2 | 6.9% |
| SPECIAL CATEGORY | 4 | 4 | 100% | 0 | 0% |
| TRMT/EQUIP CL | 242 | 239 | 98.8% | 3 | 1.2% |
| TTD | 106 | 104 | 98.1% | 2 | 1.9% |
| Total | 831 | 809 | 97.4% | 22 | 2.6% |

* Action Date < Motion Date

** Action Date > Motion Date

Tuesday, November 01, 2011

Acknowledgement Goal

Report Dates: From 10/1/2011 thru 10/31/2011

| Description | Protests Acknowledged | Days to Acknowledge Protests | | | | | | | |
|------------------------------|-----------------------|------------------------------|---------------|----------|--------------|-----------|---------------|-----------|--------------|
| | | > 30 | | 30-24 | | 23-11 | | < 11 | |
| | | Count | Percent | Count | Percent | Count | Percent | Count | Percent |
| APPLICATION THRESHOLD | Total: 2 | 0 | 0.0% | 0 | 0.0% | 2 | 100.0% | 0 | 0.0% |
| CFA - CL APP.THRESHOLD | 2 | 0 | 0.0% | 0 | 0.0% | 2 | 100.0% | 0 | 0.0% |
| COMPENSABILITY | Total: 85 | 5 | 5.9% | 3 | 3.5% | 48 | 56.5% | 29 | 34.1% |
| C8A - CL OIC REJECT CLAIM | 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| CCS - CL SEC.CONDITION | 21 | 1 | 4.8% | 0 | 0.0% | 4 | 19.0% | 16 | 76.2% |
| CHC - CL COMPENSABILITY | 3 | 1 | 33.3% | 0 | 0.0% | 2 | 66.7% | 0 | 0.0% |
| CIM - CL SI COMPENSABLE | 2 | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 2 | 100.0% |
| CIS - CL SI SEC.CONDITION | 6 | 1 | 16.7% | 0 | 0.0% | 2 | 33.3% | 3 | 50.0% |
| CPI - CL SI REJECT CLAIM | 8 | 1 | 12.5% | 1 | 12.5% | 5 | 62.5% | 1 | 12.5% |
| CPJ - CL REJECT CLAIM | 34 | 1 | 2.9% | 2 | 5.9% | 26 | 76.5% | 5 | 14.7% |
| CQR - CL SI REJ OCCDISEASE | 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| CRZ - CL REJ OCC DISEASE | 9 | 0 | 0.0% | 0 | 0.0% | 7 | 77.8% | 2 | 22.2% |
| DEP BEN FATAL | Total: 1 | 1 | 100.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| CDF - CL DENY/GRNT DTH BEN | 1 | 1 | 100.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| FAILURE TO ACT 10 DAY | Total: 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| C5N - CL FTA NOT COVERED | 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| FAILURE TO ACT 30 DAY | Total: 3 | 0 | 0.0% | 2 | 66.7% | 1 | 33.3% | 0 | 0.0% |
| C7A - CL FTA RO TTD/MED | 1 | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% | 0 | 0.0% |
| C7D - CL FTA REF FOR EXAM | 1 | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% | 0 | 0.0% |
| C7E - CL FTA CPLY OJ/BR/SC | 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| OP NON-MED | Total: 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| CIR - CL SI NON-MED ORDER | 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| OPBD | Total: 27 | 0 | 0.0% | 1 | 3.7% | 17 | 63.0% | 9 | 33.3% |
| CAO - CL ADD BOARD FINDING | 4 | 0 | 0.0% | 0 | 0.0% | 1 | 25.0% | 3 | 75.0% |
| CBF - CL % BOARD FINDING | 11 | 0 | 0.0% | 0 | 0.0% | 6 | 54.5% | 5 | 45.5% |
| CSF - CL% SI BOARD FINDING | 4 | 0 | 0.0% | 0 | 0.0% | 4 | 100.0% | 0 | 0.0% |

| Description | Protests Acknowledged | Days to Acknowledge Protests | | | | | | | |
|----------------------------|-----------------------|------------------------------|-------------|----------|-------------|------------|---------------|------------|--------------|
| | | > 30 | | 30-24 | | 23-11 | | < 11 | |
| | | Count | Percent | Count | Percent | Count | Percent | Count | Percent |
| CSO - CL SI AD BRD FINDING | 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| EBF - EM % BOARD FINDING | 5 | 0 | 0.0% | 0 | 0.0% | 4 | 80.0% | 1 | 20.0% |
| ESF - EM% SI BOARD FINDING | 2 | 0 | 0.0% | 1 | 50.0% | 1 | 50.0% | 0 | 0.0% |
| PPD | Total: 110 | 2 | 1.8% | 1 | 0.9% | 49 | 44.5% | 58 | 52.7% |
| CAA - CL ADDL % AWARD D/G | 10 | 0 | 0.0% | 0 | 0.0% | 2 | 20.0% | 8 | 80.0% |
| CAD - CL % AWARD DENY/GRNT | 74 | 1 | 1.4% | 0 | 0.0% | 36 | 48.6% | 37 | 50.0% |
| CIE - CL SI ADD% AWARD D/G | 4 | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 4 | 100.0% |
| CIG - CL SI %AWARD DNY/GNT | 22 | 1 | 4.5% | 1 | 4.5% | 11 | 50.0% | 9 | 40.9% |
| PTD ENTITLEMENT | Total: 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| CKC - CL DENY/GRANT PTD | 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| PTD ONSET DATE | Total: 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| COD - CL ONSET DATE ISSUE | 1 | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% | 0 | 0.0% |
| REOPENING | Total: 18 | 0 | 0.0% | 0 | 0.0% | 3 | 16.7% | 15 | 83.3% |
| CIY - CL SI DY/GNT R/O TTD | 1 | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% |
| CJV - CL DNY/GRNT R/O PPD | 5 | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 5 | 100.0% |
| CRD - CL DENY/GRNT R/O TTD | 12 | 0 | 0.0% | 0 | 0.0% | 3 | 25.0% | 9 | 75.0% |
| TRMT/EQUIP CL | Total: 130 | 2 | 1.5% | 1 | 0.8% | 33 | 25.4% | 94 | 72.3% |
| CBX - CL TRMT DENY | 100 | 1 | 1.0% | 1 | 1.0% | 25 | 25.0% | 73 | 73.0% |
| CSX - CL SI TRMT DENY | 21 | 1 | 4.8% | 0 | 0.0% | 8 | 38.1% | 12 | 57.1% |
| CYY - CL TRMT GRANT | 8 | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 8 | 100.0% |
| E8E - EM OIC TRMT GRANT | 1 | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% |
| TTD | Total: 54 | 2 | 3.7% | 0 | 0.0% | 35 | 64.8% | 17 | 31.5% |
| CCC - CL CLOSING THE CLAIM | 35 | 2 | 5.7% | 0 | 0.0% | 23 | 65.7% | 10 | 28.6% |
| CIC - CL SI CLSING THE CLM | 11 | 0 | 0.0% | 0 | 0.0% | 6 | 54.5% | 5 | 45.5% |
| CIJ - CL SI TTD | 2 | 0 | 0.0% | 0 | 0.0% | 2 | 100.0% | 0 | 0.0% |
| CJS - CL TTD | 5 | 0 | 0.0% | 0 | 0.0% | 4 | 80.0% | 1 | 20.0% |
| CSG - CL SI INITIAL TTD | 1 | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 1 | 100.0% |
| Totals: Claims 356 | 434 | 12 | 2.8% | 8 | 1.8% | 192 | 44.2% | 222 | 51.2% |

Tuesday, November 01, 2011

Resolution of Issues

Report Dates: Decision Date from 10/1/2011 thru 10/31/2011

| Time Standard | Decisions Issued | Reversed | | Affirmed | | Affirmed by Rule | | Dismissed | | Modified | | Moot | | Other | | Remanded | |
|-------------------------------------|------------------|-----------|-------------|------------|-------------|------------------|-------------|------------|-------------|----------|------------|----------|------------|----------|------------|----------|----------|
| | | Count | % | Count | % | Count | % | Count | % | Count | % | Count | % | Count | % | Count | % |
| APPLICATION THRESHOLD | 1 | 0 | 0 | 0 | 0 | 1 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| DEP BEN FATAL FAILURE TO ACT 15 DAY | 4 | 0 | 0 | 4 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PPD | 110 | 10 | 9.1 | 24 | 21.8 | 30 | 27.3 | 45 | 40.9 | 1 | 0.9 | 0 | 0 | 0 | 0 | 0 | 0 |
| REOPENING | 15 | 3 | 20 | 5 | 33.3 | 3 | 20 | 3 | 20 | 0 | 0 | 0 | 0 | 1 | 6.7 | 0 | 0 |
| TTD | 43 | 7 | 16.3 | 14 | 32.6 | 7 | 16.3 | 13 | 30.2 | 1 | 2.3 | 0 | 0 | 1 | 2.3 | 0 | 0 |
| BENEFIT OVERPAYMENT | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| COMPENSABILITY | 95 | 26 | 27.4 | 39 | 41.1 | 5 | 5.3 | 21 | 22.1 | 2 | 2.1 | 1 | 1.1 | 1 | 1.1 | 0 | 0 |
| IEB DETERMINATION | 3 | 1 | 33.3 | 1 | 33.3 | 1 | 33.3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OP NON-MED | 1 | 1 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OPBD | 27 | 4 | 14.8 | 12 | 44.4 | 2 | 7.4 | 9 | 33.3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PTD ENTITLEMENT | 3 | 0 | 0 | 2 | 66.7 | 1 | 33.3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| REHABILITATION | 2 | 0 | 0 | 2 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SPECIAL CATEGORY | 2 | 0 | 0 | 0 | 0 | 1 | 50 | 0 | 0 | 1 | 50 | 0 | 0 | 0 | 0 | 0 | 0 |
| TRMT/EQUIP CL | 126 | 29 | 23 | 54 | 42.9 | 16 | 12.7 | 20 | 15.9 | 4 | 3.2 | 2 | 1.6 | 1 | 0.8 | 0 | 0 |
| Totals | 434 | 81 | 18.7 | 157 | 36.2 | 67 | 15.4 | 112 | 25.8 | 9 | 2.1 | 4 | 0.9 | 4 | 0.9 | 0 | 0 |

OOJ – Petition for Attorney Fees for Unreasonable Denial

Petitions received 9/1/2005 through 10/31/2011

| | |
|---|----|
| | 77 |
| Petitions denied on face: | 23 |
| Petitions denied by ALJ Decision: | 32 |
| Petitions granted: | 10 |
| Petitions withdrawn through settlement: | 3 |
| Petitions currently pending: | 9 |

Failure to Timely Act Process

Petitions filed 9/1/05 through 10/31/11

| | |
|-------------------|-----|
| Filed: | 286 |
| Denied/dismissed: | 116 |
| Withdrawn: | 12 |
| Reports to OIC: | 136 |
| Pending | 22 |

Expedited Hearings Scheduled

| | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec | TOTAL |
|-------------|-----|-----|-----|-----|-----|------|------|-----|------|-----|-----|-----|------------|
| 2009 | 5 | 6 | 5 | 4 | 10 | 14 | 10 | 6 | 12 | 4 | 5 | 9 | 90 |
| 2010 | 13 | 2 | 6 | 9 | 4 | 7 | 12 | 8 | 11 | 10 | 15 | 15 | 112 |
| 2011 | 10 | 16 | 11 | 15 | 21 | 16 | 11 | 13 | 9 | 8 | | | 130 |

Pro Se Claimant Information as of October 31, 2011

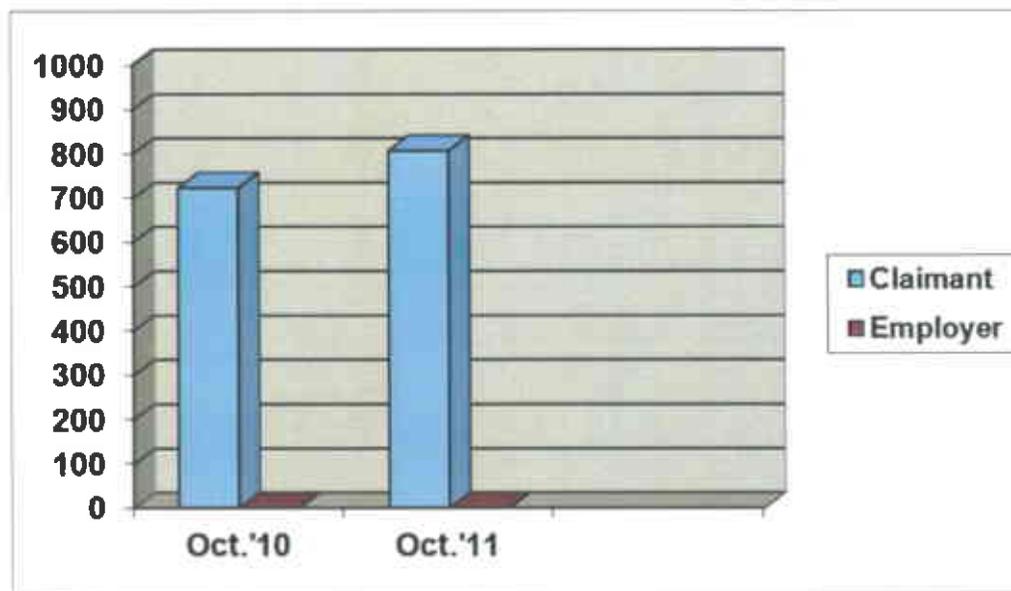
Pending Protests Involving Pro Se Claimants: 585

Pending Claims Involving Pro Se claimants: 523

OOJ – Pending Treatment Issues

| Pending Treatment Issues | | | Comparison to Prior Mo/Year | |
|--------------------------|------------------|------------|-----------------------------|------------|
| Party | Month Oct.'11 | % Protests | Month Oct.'10 | % Protests |
| Claimant Employer | 807 | 22.87% | 723 | 20.20% |
| Total | 807 | | 723 | |

Pending Treatment Issues



Earl Ray Tomblin
Governor

W. Jack Stevens
Member

James D. Gray
Member

Rita Hedrick-Helmick
Chairperson

Workers' Compensation Board of Review

Offices located at 1207 Quarrier St, Charleston
All communications should be addressed to the Board of Review
at the address shown at the bottom of this page.
an equal opportunity/affirmative action employer

MEMORANDUM

To: Mike Riley, Acting Commissioner
Bill Dean, Chairman
Kent Hartsog, Vice Chairman
Dan Marshall
Honorable Brooks McCabe
Honorable Nancy Peoples Guthrie
Jim Dissen

From: Rita Hedrick-Helmick, Chairperson

Date: November 5, 2011

Re: Workers' Compensation Board of Review Monthly Report

Attached, please find the Board of Review's October 2011 monthly report.

A number of changes have been made to the Board's reports. You will find a total of eight reports as opposed to the two reports you previously received. These reports include the following:

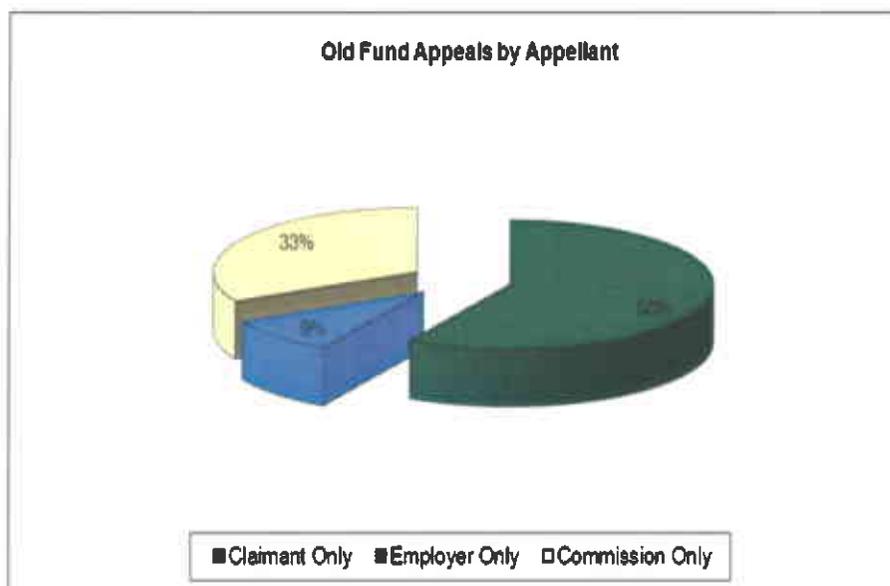
1. Monthly Report of Appeals Received
2. Yearly Report of Appeals Received
3. Monthly Report of Appeals Received by Issue
4. Yearly Report of Appeals Received by Issue
5. Monthly Appeals Received by Issue and Appellant
6. Monthly Summary of Dispositions by Party
7. Monthly Summary of Dispositions by Issue
8. Yearly Summary of Dispositions by Issue

Please do not hesitate to contact me in the event of any questions.

Appeals Received
From October 1, 2011 Thru October 31, 2011

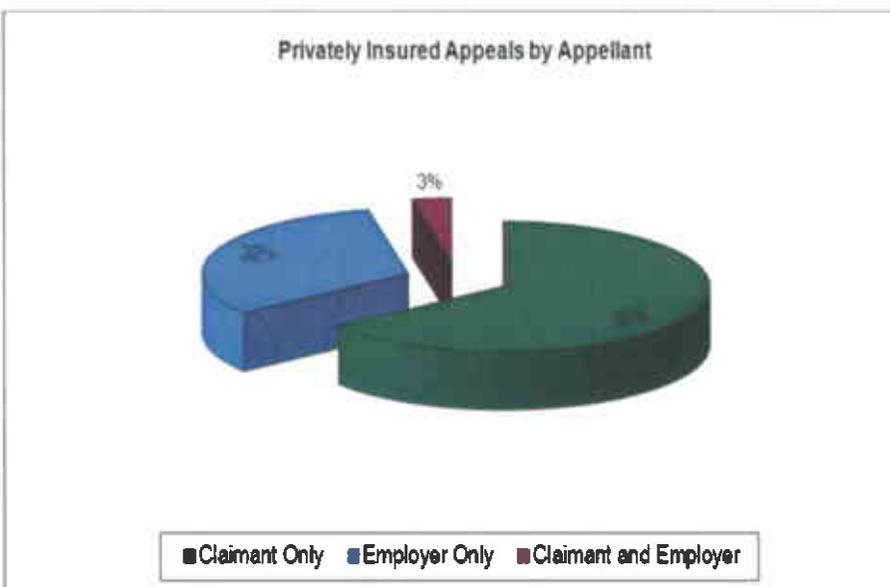
Old Fund Appeals (DOI < Jul-1-2005)

| Appellant | Count |
|-----------------------|-----------|
| Claimant Only | 25 |
| Employer Only | 4 |
| Commission Only | 14 |
| Old Fund Total | 43 |



Privately Insured Appeals (DOI > Jun-30-2005)

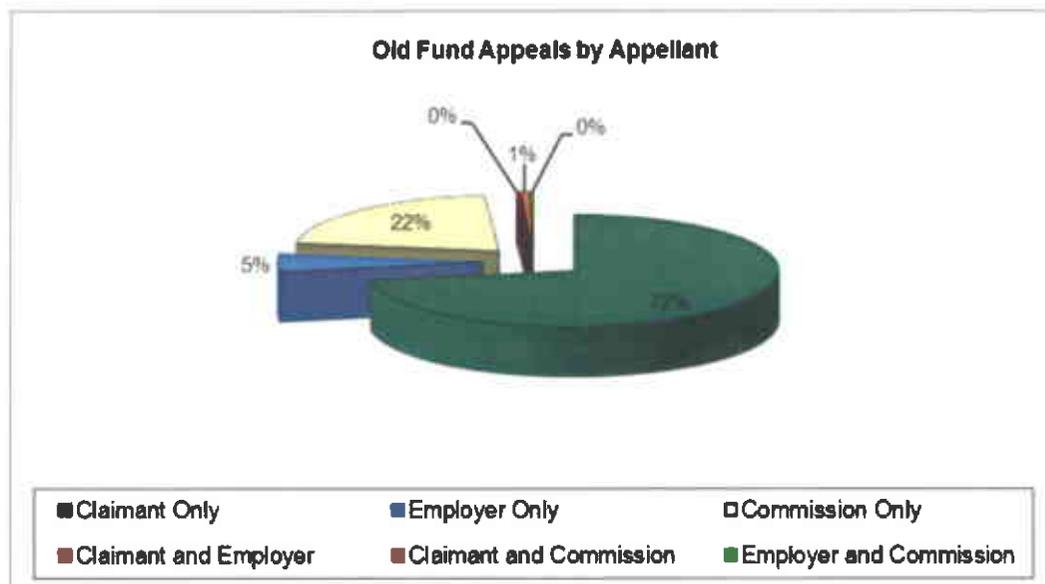
| Appellant | Count |
|--------------------------------|------------|
| Claimant Only | 42 |
| Employer Only | 21 |
| Claimant and Employer | 2 |
| Privately Insured Total | 65 |
| Total Appeals | 108 |



Yearly Appeals Received
From January 1, 2011 Thru October 31, 2011

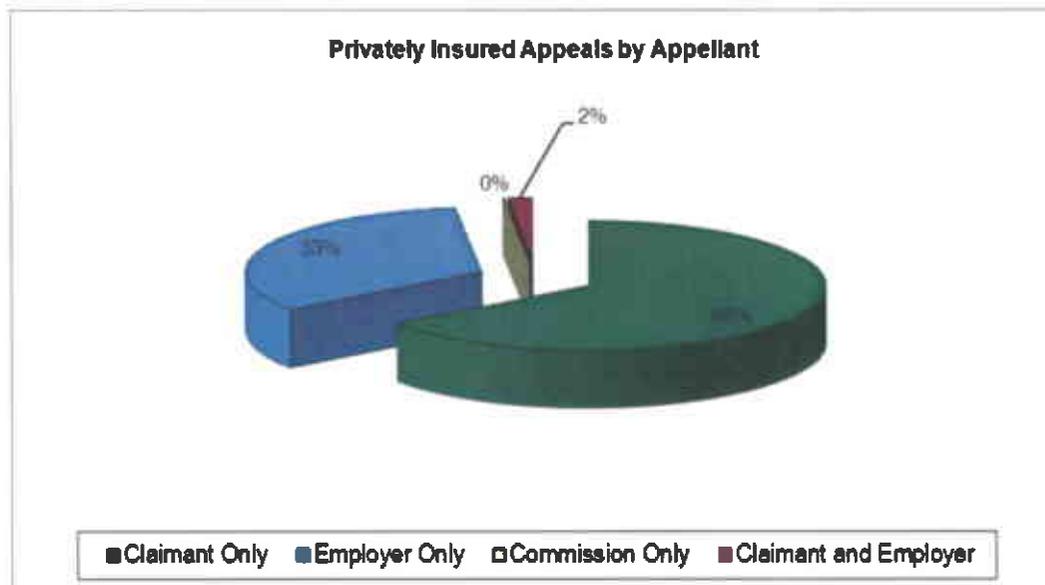
Old Fund Appeals (DOI < Jul-1-2005)

| Appellant | Count |
|-------------------------|---------|
| Claimant Only | 252 |
| Employer Only | 18 |
| Commission Only | 75 |
| Claimant and Employer | 1 |
| Claimant and Commission | 2 |
| Employer and Commission | 1 |
| Old Fund Total | 349 |



Privately Insured Appeals (DOI > Jun-30-2005)

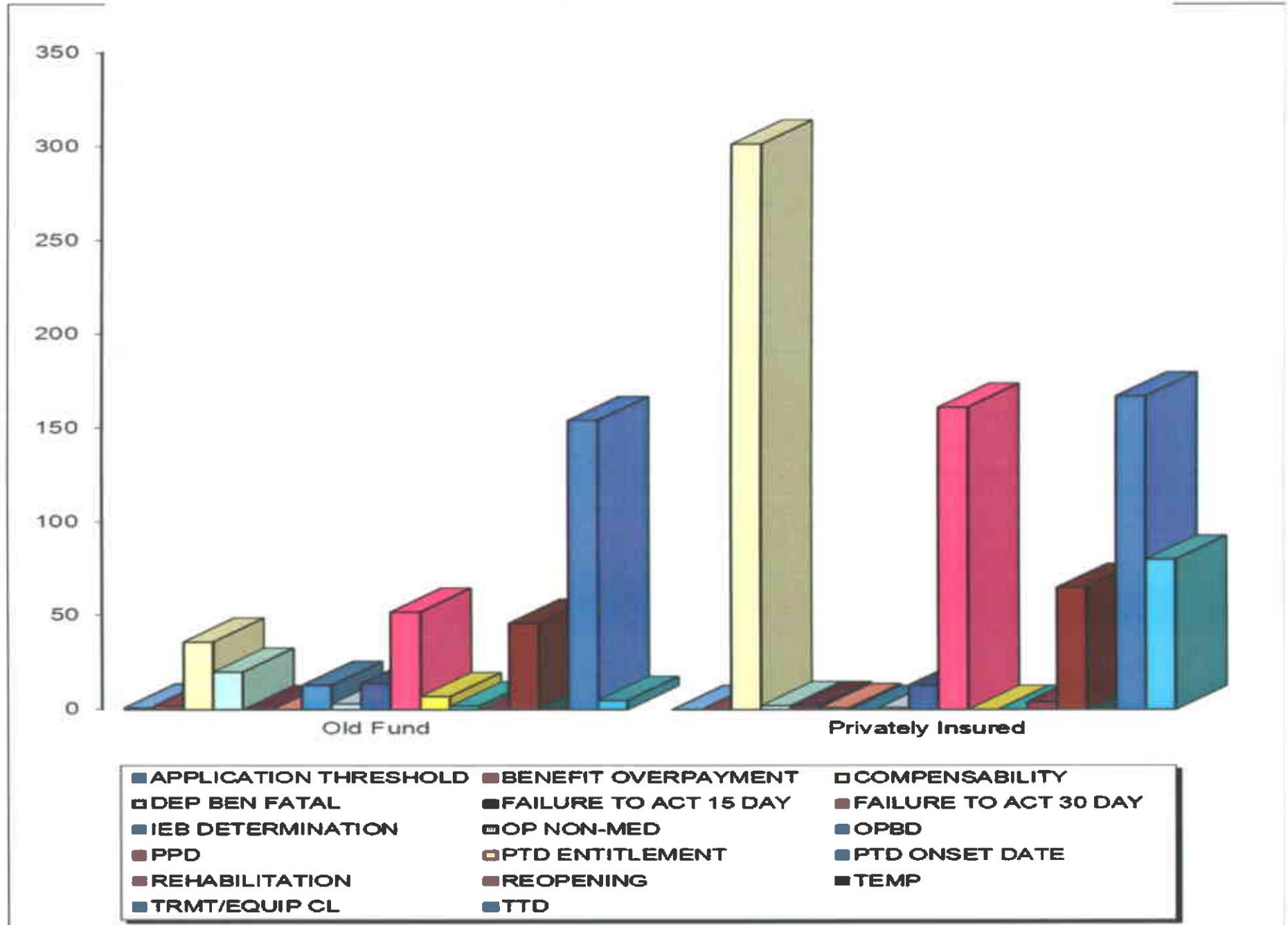
| Appellant | Count |
|-----------------------------|----------|
| Claimant Only | 475 |
| Employer Only | 243 |
| Commission Only | 1 |
| Claimant and Employer | 12 |
| Privately Insured Total | 731 |
| Total Appeals | 1080 |



Yearly Appeals Received By Issue
 Old Fund Appeals (DOI < Jul-1-2005) vs Privately Insured Appeals (DOI > Jun-30-2005)
 From January 1, 2011 Thru October 31, 2011

| Type of Issue | Total Issues | Old Fund | | Privately Insured | |
|-----------------------|--------------|------------|-------------|-------------------|-------------|
| | | # | % | # | % |
| APPLICATION THRESHOLD | 1 | 1 | 100.0 | 0 | 0.0 |
| BENEFIT OVERPAYMENT | 2 | 2 | 100.0 | 0 | 0.0 |
| COMPENSABILITY | 337 | 36 | 10.7 | 301 | 89.3 |
| DEP BEN FATAL | 22 | 20 | 90.9 | 2 | 9.1 |
| FAILURE TO ACT 15 DAY | 2 | 0 | 0.0 | 2 | 100.0 |
| FAILURE TO ACT 30 DAY | 1 | 0 | 0.0 | 1 | 100.0 |
| IEB DETERMINATION | 13 | 13 | 100.0 | 0 | 0.0 |
| OP NON-MED | 4 | 3 | 75.0 | 1 | 25.0 |
| OPBD | 27 | 14 | 51.9 | 13 | 48.1 |
| PPD | 213 | 52 | 24.4 | 161 | 75.6 |
| PTD ENTITLEMENT | 7 | 7 | 100.0 | 0 | 0.0 |
| PTD ONSET DATE | 2 | 2 | 100.0 | 0 | 0.0 |
| REHABILITATION | 4 | 0 | 0.0 | 4 | 100.0 |
| REOPENING | 111 | 46 | 41.4 | 65 | 58.6 |
| TEMP | 1 | 1 | 100.0 | 0 | 0.0 |
| TRMT/EQUIP CL | 321 | 154 | 48.0 | 167 | 52.0 |
| TTD | 85 | 5 | 5.9 | 80 | 94.1 |
| Totals | 1153 | 356 | 30.9 | 797 | 69.1 |

Yearly Appeals Received By Issue
 Old Fund Appeals (DOI < Jul-1-2005) vs Privately Insured Appeals (DOI > Jun-30-2005)
 From January 1, 2011 Thru October 31, 2011



- APPLICATION THRESHOLD
- BENEFIT OVERPAYMENT
- COMPENSABILITY
- DEP BEN FATAL
- FAILURE TO ACT 15 DAY
- FAILURE TO ACT 30 DAY
- IEB DETERMINATION
- OP NON-MED
- OPBD
- PPD
- PTD ENTITLEMENT
- PTD ONSET DATE
- REHABILITATION
- REOPENING
- TEMP
- TRMT/EQUIP CL
- TTD

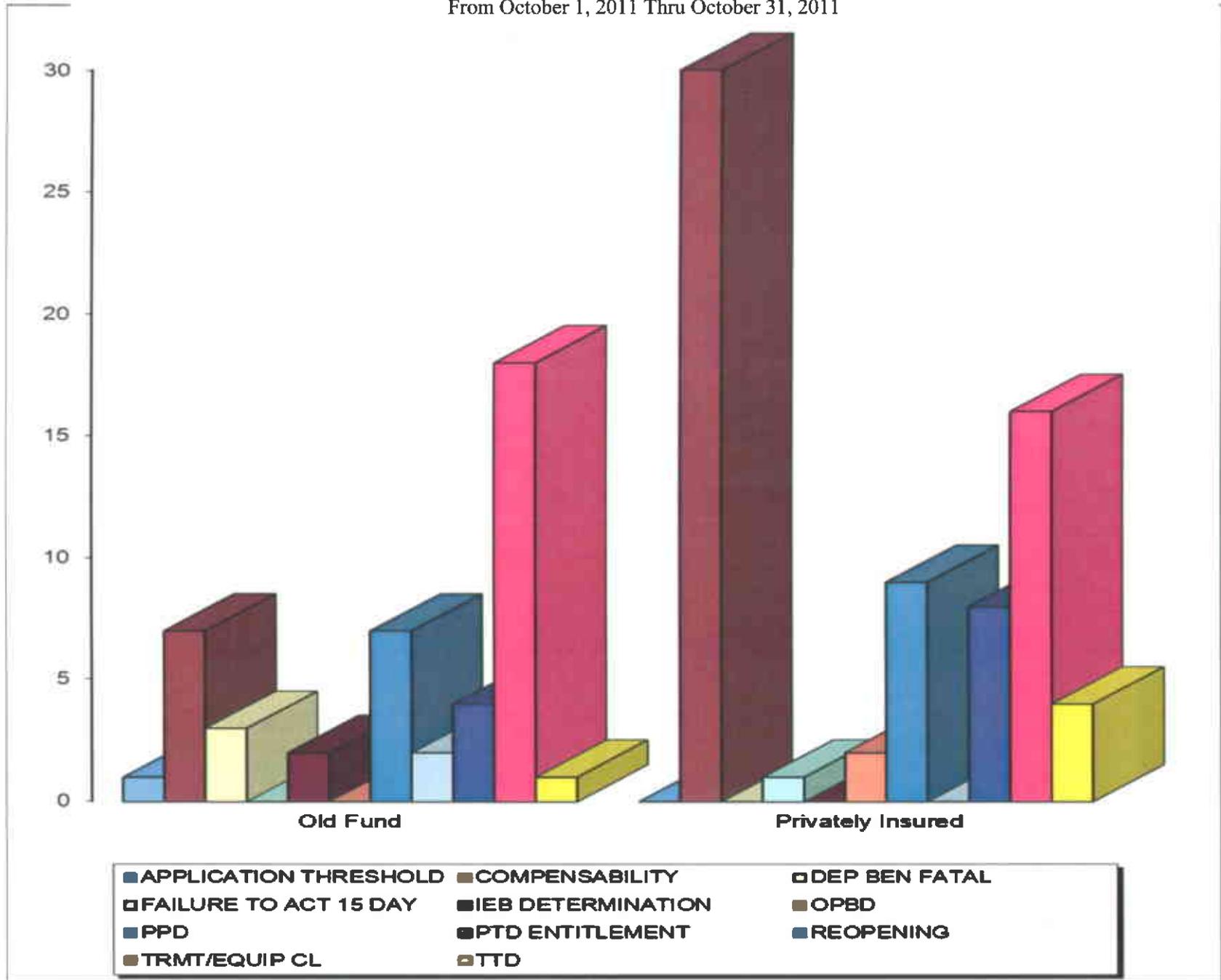
Appeals Received By Issue
 Old Fund Appeals (DOI < Jul-1-2005) vs Privately Insured Appeals (DOI > Jun-30-2005)
 From October 1, 2011 Thru October 31, 2011

| Type of Issue | Total Issues | Old Fund | | Privately Insured | |
|-----------------------|--------------|----------|-------|-------------------|-------|
| | | # | % | # | % |
| APPLICATION THRESHOLD | 1 | 1 | 100.0 | 0 | 0.0 |
| COMPENSABILITY | 37 | 7 | 18.9 | 30 | 81.1 |
| DEP BEN FATAL | 3 | 3 | 100.0 | 0 | 0.0 |
| FAILURE TO ACT 15 DAY | 1 | 0 | 0.0 | 1 | 100.0 |
| IEB DETERMINATION | 2 | 2 | 100.0 | 0 | 0.0 |
| OPBD | 2 | 0 | 0.0 | 2 | 100.0 |
| PPD | 16 | 7 | 43.8 | 9 | 56.3 |
| PTD ENTITLEMENT | 2 | 2 | 100.0 | 0 | 0.0 |
| REOPENING | 12 | 4 | 33.3 | 8 | 66.7 |
| TRMT/EQUIP CL | 34 | 18 | 52.9 | 16 | 47.1 |
| TTD | 5 | 1 | 20.0 | 4 | 80.0 |
| Totals | 115 | 45 | 39.1 | 70 | 60.9 |

Appeals Received By Issue

Old Fund Appeals (DOI < Jul-1-2005) vs Privately Insured Appeals (DOI > Jun-30-2005)

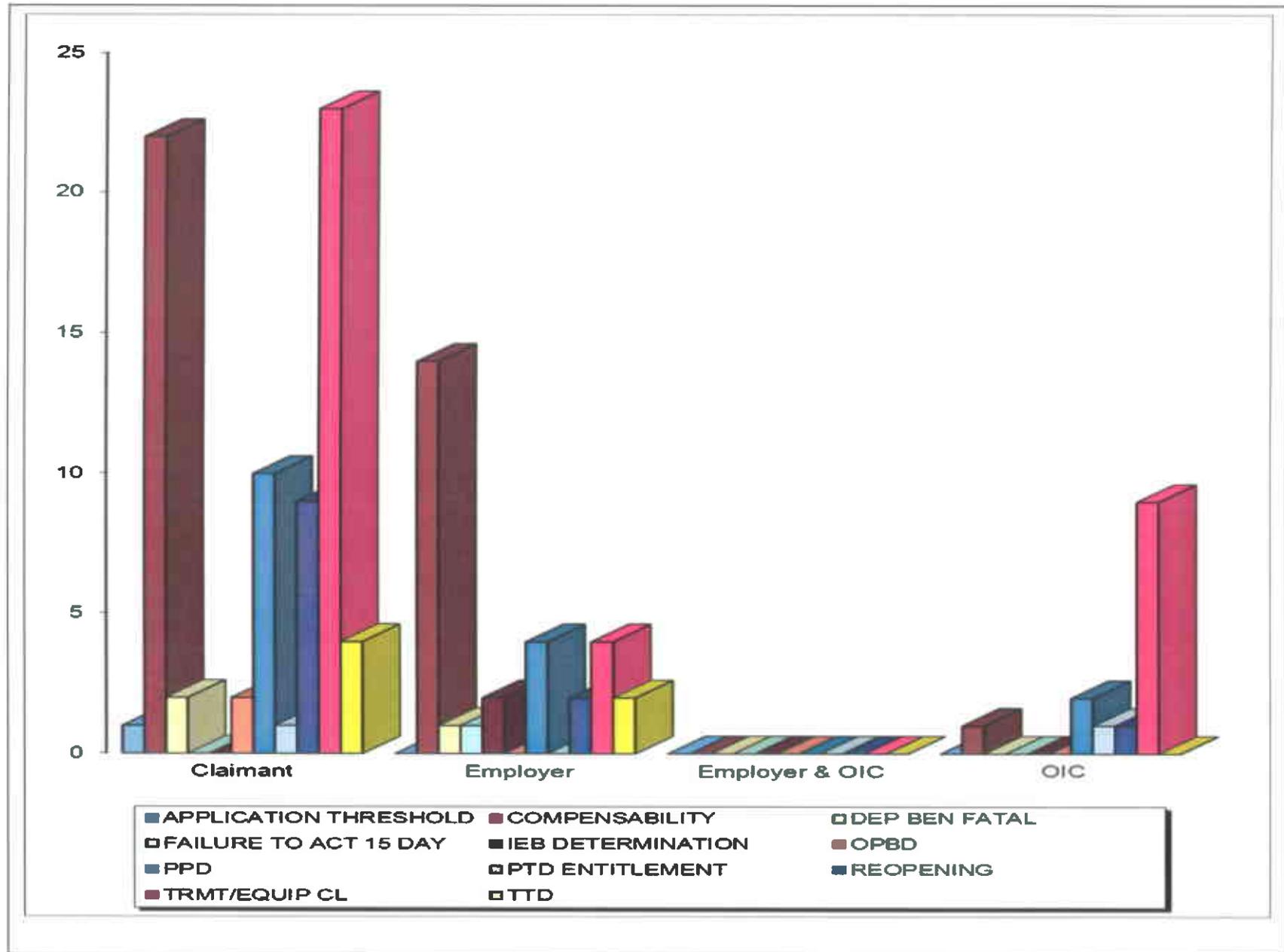
From October 1, 2011 Thru October 31, 2011



Appeals Received By Issue
From October 1, 2011 Thru October 31, 2011

| Type of Issue | Total Issues | Claimant | | Employer | | OIC | | Emp and OIC | |
|-----------------------|--------------|-----------|-------------|-----------|-------------|----------|------------|-------------|-------------|
| | | # | % | # | % | # | % | # | % |
| APPLICATION THRESHOLD | 1 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| COMPENSABILITY | 37 | 22 | 59.5 | 14 | 37.8 | 0 | 0.0 | 1 | 2.7 |
| DEP BEN FATAL | 3 | 2 | 66.7 | 1 | 33.3 | 0 | 0.0 | 0 | 0.0 |
| FAILURE TO ACT 15 DAY | 1 | 0 | 0.0 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 |
| IEB DETERMINATION | 2 | 0 | 0.0 | 2 | 100.0 | 0 | 0.0 | 0 | 0.0 |
| OPBD | 2 | 2 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| PPD | 16 | 10 | 62.5 | 4 | 25.0 | 0 | 0.0 | 2 | 12.5 |
| PTD ENTITLEMENT | 2 | 1 | 50.0 | 0 | 0.0 | 0 | 0.0 | 1 | 50.0 |
| REOPENING | 12 | 9 | 75.0 | 2 | 16.7 | 0 | 0.0 | 1 | 8.3 |
| TRMT/EQUIP CL | 36 | 23 | 63.9 | 4 | 11.1 | 0 | 0.0 | 9 | 25.0 |
| TTD | 6 | 4 | 66.7 | 2 | 33.3 | 0 | 0.0 | 0 | 0.0 |
| Totals | 118 | 74 | 62.7 | 30 | 25.4 | 0 | 0.0 | 14 | 11.9 |

Appeals Received By Issue
 From October 1, 2011 Thru October 31, 2011



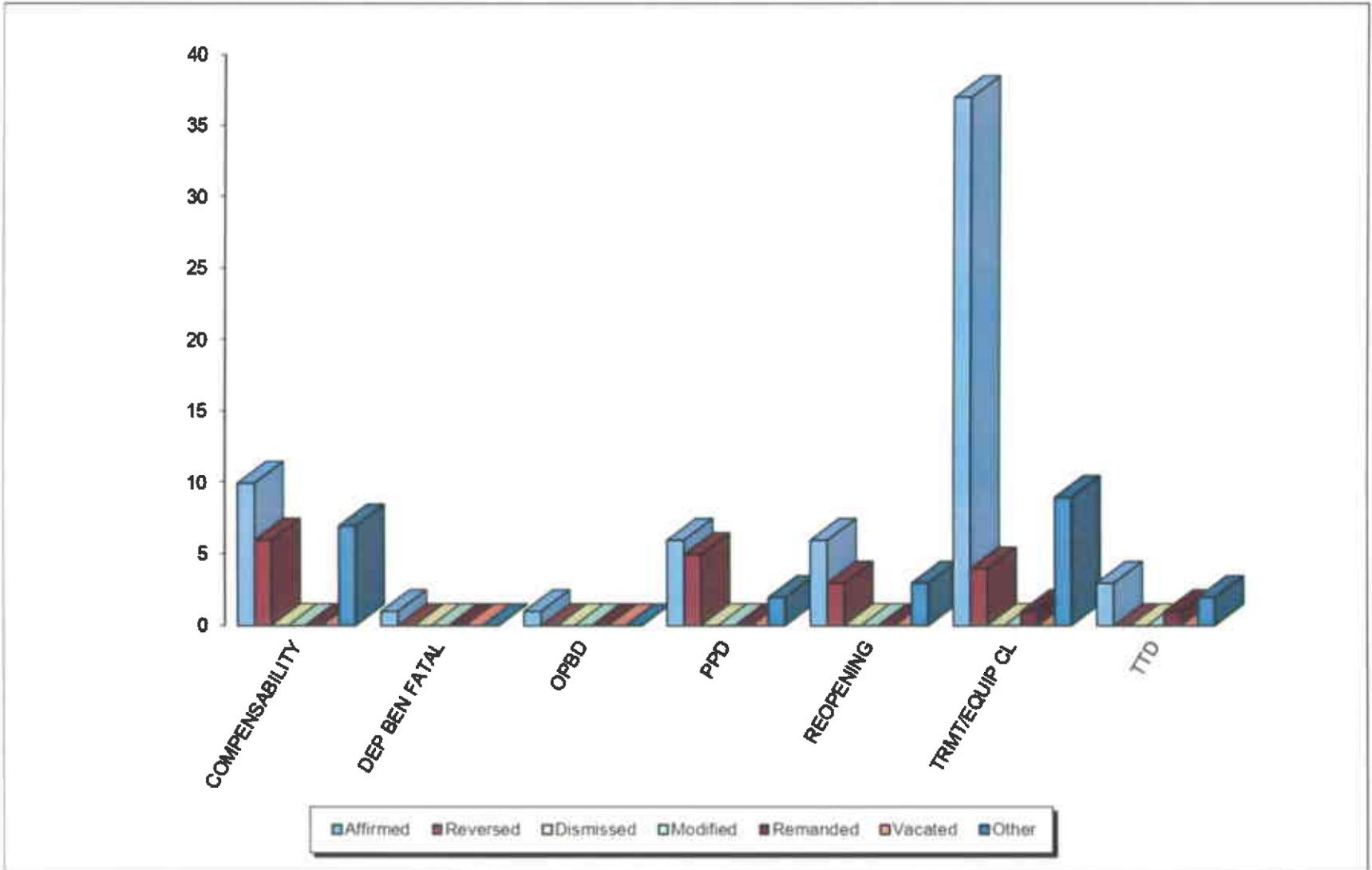
WORKERS' COMPENSATION BOARD OF REVIEW – For October 2011

| Appealed By | BOR Disposition | Disposition | | | Year to Date | | |
|--------------------------|--------------------|-------------|--------|---------|--------------|--------|---------|
| | | Count | Disp % | Total % | Date | Disp % | Total % |
| CLAIMANT | AFFIRMED | 43 | 72.9% | 44.3% | 565 | 88.3% | 60.5% |
| | DISMISSED | 10 | 16.9% | 10.3% | 28 | 4.4% | 3.0% |
| | MODIFY | | | | 4 | 0.6% | 0.4% |
| | REMAND | 1 | 1.7% | 1.0% | 9 | 1.4% | 1.0% |
| | REVERSE | 5 | 8.5% | 5.2% | 33 | 5.2% | 3.5% |
| | VACATE | | | | 1 | 0.2% | 0.1% |
| | Total Dispositions | 59 | | | 640 | | |
| CLAIMANT/EMPLOYER | AFFIRMED | | | | 2 | 50.0% | 0.2% |
| | DISMISSED | | | | 1 | 25.0% | 0.1% |
| | MODIFY | | | | 1 | 25.0% | 0.1% |
| | Total Dispositions | | | | 4 | | |
| EMPLOYER | AFFIRMED | 13 | 48.1% | 13.4% | 144 | 64.0% | 15.4% |
| | DISMISSED | 5 | 18.5% | 5.2% | 14 | 6.2% | 1.5% |
| | MODIFY | | | | 7 | 3.1% | 0.7% |
| | REMAND | 1 | 3.7% | 1.0% | 6 | 2.7% | 0.6% |
| | REVERSE | 8 | 29.6% | 8.2% | 54 | 24.0% | 5.8% |
| | Total Dispositions | 27 | | | 225 | | |
| DIVISION/OIC | AFFIRMED | 5 | 45.5% | 5.2% | 33 | 50.8% | 3.5% |
| | DISMISSED | 2 | 18.2% | 2.1% | 2 | 3.1% | 0.2% |
| | MODIFY | | | | 2 | 3.1% | 0.2% |
| | REMAND | | | | 2 | 3.1% | 0.2% |
| | REVERSE | 4 | 36.4% | 4.1% | 26 | 40.0% | 2.8% |
| | Total Dispositions | 11 | | | 65 | | |
| Grand Totals | | 97 | | | 934 | | |

Dispositions By Issues
BOR Orders Mailed From October 1, 2011 Thru October 31, 2011

| Type of Issue | Issues | Affirmed | | Reversed | | Dismissed | | Modified | | Remanded | | Vacated | | Other | |
|----------------|------------|-----------|-------------|-----------|-------------|-----------|------------|----------|------------|----------|------------|----------|------------|-----------|-------------|
| | | # | % | # | % | # | % | # | % | # | % | # | % | # | % |
| COMPENSABILITY | 23 | 10 | 43.5 | 6 | 26.1 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 7 | 30.4 |
| DEP BEN FATAL | 1 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| OPBD | 1 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| PPD | 13 | 6 | 46.2 | 5 | 38.5 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 2 | 15.4 |
| REOPENING | 12 | 6 | 50.0 | 3 | 25.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 3 | 25.0 |
| TRMT/EQUIP CL | 51 | 37 | 72.5 | 4 | 7.8 | 0 | 0.0 | 0 | 0.0 | 1 | 2.0 | 0 | 0.0 | 9 | 17.6 |
| TTD | 6 | 3 | 50.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 1 | 16.7 | 0 | 0.0 | 2 | 33.3 |
| Totals | 107 | 64 | 59.8 | 18 | 16.8 | 0 | 0.0 | 0 | 0.0 | 2 | 1.9 | 0 | 0.0 | 23 | 21.5 |

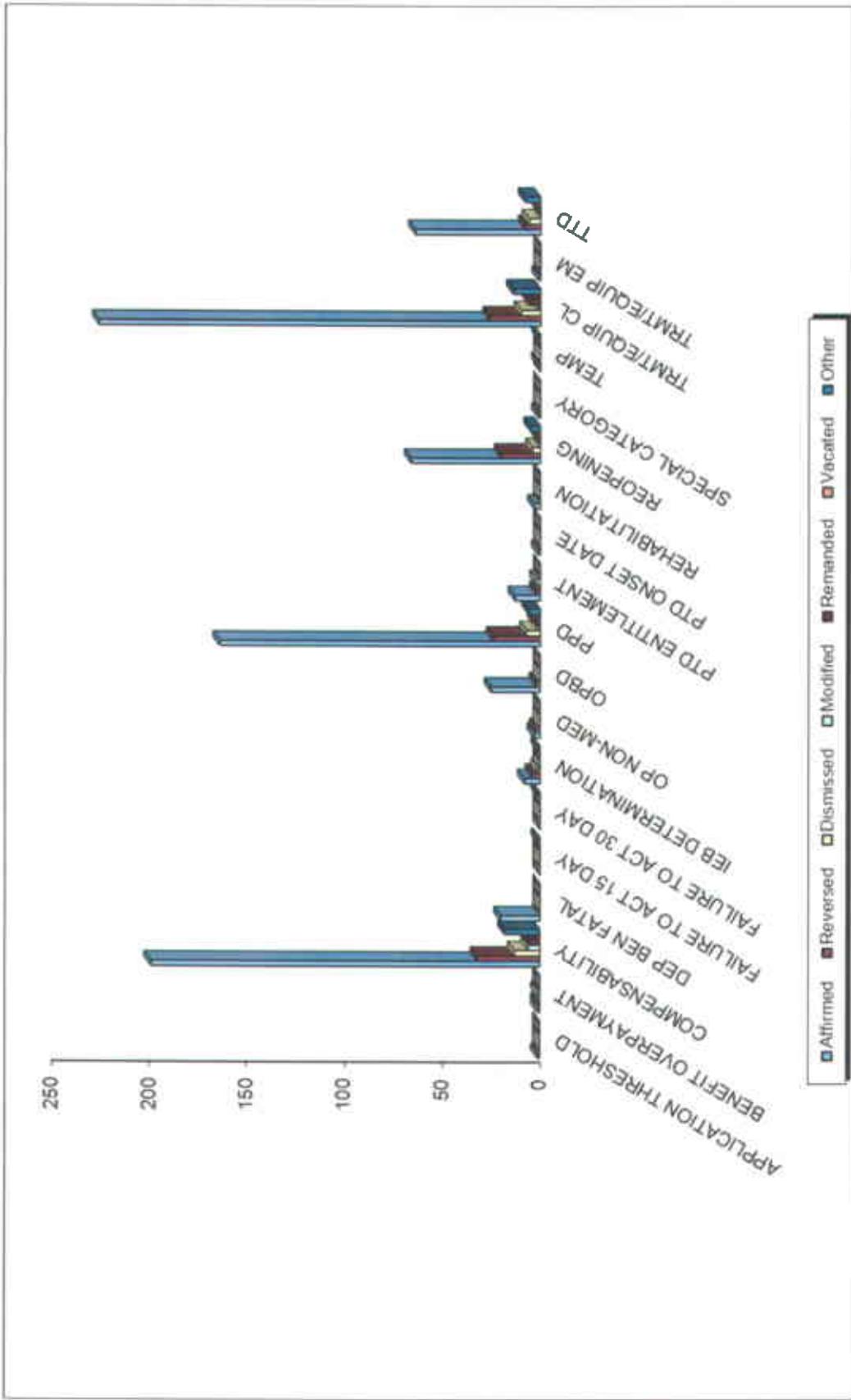
Dispositions By Issues
 BOR Orders Mailed From October 1, 2011 Thru October 31, 2011



Yearly Dispositions By Issues
BOR Orders Mailed From January 1, 2011 Thru October 31, 2011

| Type of Issue | Issues | Affirmed | | Reversed | | Dismissed | | Modified | | Remanded | | Vacated | | Other | |
|-----------------------|-------------|------------|-------------|------------|-------------|-----------|------------|-----------|------------|-----------|------------|----------|------------|-----------|------------|
| | | # | % | # | % | # | % | # | % | # | % | # | % | # | % |
| APPLICATION THRESHOLD | 1 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| BENEFIT OVERPAYMENT | 3 | 1 | 33.3 | 1 | 33.3 | 0 | 0.0 | 1 | 33.3 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| COMPENSABILITY | 275 | 199 | 72.4 | 32 | 11.6 | 13 | 4.7 | 6 | 2.2 | 6 | 2.2 | 1 | 0.4 | 18 | 6.5 |
| DEP BEN FATAL | 20 | 20 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| FAILURE TO ACT 15 DAY | 1 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 1 | 100.0 |
| FAILURE TO ACT 30 DAY | 1 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 1 | 100.0 |
| IEB DETERMINATION | 14 | 8 | 57.1 | 4 | 28.6 | 1 | 7.1 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 1 | 7.1 |
| OP NON-MED | 5 | 3 | 60.0 | 2 | 40.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| OPBD | 27 | 25 | 92.6 | 2 | 7.4 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| PPD | 205 | 164 | 80.0 | 24 | 11.7 | 7 | 3.4 | 1 | 0.5 | 3 | 1.5 | 0 | 0.0 | 6 | 2.9 |
| PTD ENTITLEMENT | 17 | 13 | 76.5 | 2 | 11.8 | 0 | 0.0 | 2 | 11.8 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| PTD ONSET DATE | 1 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| REHABILITATION | 3 | 3 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| REOPENING | 96 | 66 | 68.8 | 20 | 20.8 | 4 | 4.2 | 0 | 0.0 | 1 | 1.0 | 0 | 0.0 | 5 | 5.2 |
| SPECIAL CATEGORY | 1 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| TEMP | 2 | 0 | 0.0 | 1 | 50.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 1 | 50.0 |
| TRMT/EQUIP CL | 283 | 226 | 79.9 | 26 | 9.2 | 10 | 3.5 | 1 | 0.4 | 6 | 2.1 | 0 | 0.0 | 14 | 4.9 |
| TRMT/EQUIP EM | 1 | 1 | 100.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| TTD | 87 | 64 | 73.6 | 8 | 9.2 | 6 | 6.9 | 0 | 0.0 | 1 | 1.1 | 0 | 0.0 | 8 | 9.2 |
| Totals | 1043 | 796 | 76.3 | 122 | 11.7 | 41 | 3.9 | 11 | 1.1 | 17 | 1.6 | 1 | 0.1 | 55 | 5.3 |

Yearly Dispositions By Issues
 BOR Orders Mailed From January 1, 2011 Thru October 31, 2011



**WV Offices of the Insurance Commissioner
Worker's Compensation - Revenue Recovery
September 2011**

| COLLECTION ACTIVITY | |
|---|-----------------|
| Receipts - Old Fund (Employer out of business) | \$ 64,364.42 |
| Receipts - PC & NU (Private Carrier Cancellation & Rogue Employers) | \$ 67,533.77 |
| Receipts - Payment Agreements | \$ 12,855.11 |
| # of active accounts uninsured (cumulative) | 659 |
| \$ of active accounts uninsured (cumulative) | \$ 2,641,652.42 |
| Telephone contacts | 1,714 |
| Walk-ins | 8 |

| LIENS | |
|--|----|
| Liens sent to county clerks for recordation | 70 |
| Liens sent to county clerks for release | 37 |
| Intent to lien letters sent to employer/owner/officer/member | 89 |

| | |
|---|---------------|
| Uninsured Policies Resolved | 266 |
| All Cash Receipts from WC accounts | \$ 144,753.30 |

| INJUNCTIONS | |
|--|----|
| Affidavits for injunction submitted to legal | 1 |
| Hearings attended | 3 |
| # of injunction complaints filed | 3 |
| # of injunctions granted | 1 |
| # of agreed orders entered | 0 |
| PAYMENT AGREEMENTS | |
| # of repayment agreements applications | 7 |
| Agreements set up | 7 |
| Total # of agreements on system (cumulative) | 73 |
| Intent to void letters mailed | 9 |
| Agreements voided | 3 |

| MISCELLANEOUS | |
|------------------------|-----|
| Terminations Processed | 73 |
| Rule 11 Letters Mailed | 201 |
| Rule 11 hearings | 0 |

BOARD OF TREASURY INVESTMENTS

OPERATING REPORT SEPTEMBER 30, 2011

CALENDAR NOTES:

Board Meeting
November 14, 2011

CD Auction
January 11, 2012

Board of Treasury Investments

1900 Kanawha
Boulevard East
Suite E-122
Charleston WV
25305
(304) 340-1578
www.wvbtli.com

Board of Directors

John D. Perdue,
State Treasurer,
Chairman

Earl Ray Tomblin,
Governor

Glen B. Gainer III,
State Auditor

Martin Glasser, Esq.,
Attorney
Appointed by the
Governor

Richard "Chap"
Donovan, CPA
Appointed by the
Governor

Executive Staff

Executive Director
Glenda Probst,
CPA, CTP

Chief Financial
Officer

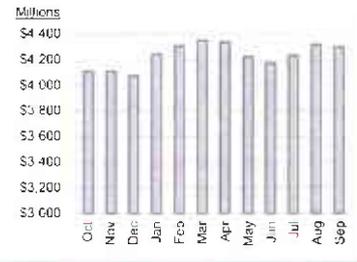
Kara K. Hughes,
CPA, MBA

Total Net Assets Under Management

\$4,300,400,000

Last Month
\$4,319,492,000

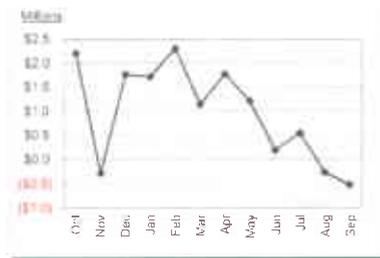
Beginning of Fiscal Year
\$4,172,779,000



Net Assets for the Past 12 Months

Total Net Income & Gains (Loss)

Fiscal Year
\$(254,000)



Net Income (Loss) for the Past 12 Months

Money Market Pools As of September 30, 2011

| Pool | 1-Day Yield * | 7-Day Yield * | 30-Day Avg. Yield * | W.A.M. ** | Net Assets |
|-----------------------|---------------|---------------|---------------------|-----------|-----------------|
| WV Money Market | .1044% | .1036% | .1036% | 44 Days | \$3.3 Billion |
| WV Gov't Money Market | .0397% | .0546% | .0619% | 47 Days | \$351.3 Million |

* Yields represent the simple money market yield net of fees.

** W.A.M. is the weighted average maturity.

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

THE ECONOMIC STATE

SEPTEMBER 2011

Domestic & Global Markets Plummet

Economic Conditions

Global stock markets plummeted in the month of September as the accelerating Euro-zone crisis and fears of slowing economic growth caused investors to flee risky assets. The month capped a calendar quarter that was one of the worst for the S&P 500 in decades. Smaller company stocks fared even worse in the month and quarter and now trail large caps by more than 8% year-to-date. Non-US stocks also sold off more steeply than US large caps, as the dollar rallied. Emerging markets stocks took a hit as slowing growth in China compounded concerns of a return to recession in the developed world.

US Treasuries acted as a safe haven for investors, despite the budget impasse that contributed to Standard & Poor's downgrading government issuance in early August. Treasury yields also responded to the Federal Reserve's announcement of "Operation Twist" to sell short-term and buy long-term Treasuries. Treasury rates declined precipitously during the quarter – the 10-year note yield falling 120 basis points to 1.92% and the 30-year bond yield down 140 basis points to 2.91%. Gold proved somewhat fickle as a hedge against volatility, finishing the month at \$1,661 per troy ounce, a decline of more than 10% during the month although still up almost 14% year-to-date. Broad commodity benchmarks also fell during September due to lower growth expectations. Credit markets suffered along with other risky assets during the month as high yield spreads widened to close to 8% over Treasuries.

Bond Markets

Bond investors faced mixed results during the month. Long duration government bonds produced tremendous returns during September rising nearly 9.5%, benefitting from recently announced Federal Reserve program to purchase long-term Treasuries. Shorter duration government bonds (1 – 3 years) fell slightly in response. Investment grade corporate bonds provided investors with modest returns, while their lower rated brethren declined sharply in September. Once again short duration instruments provided investors with negligible returns during the month as evidenced by 3-month Treasury Bills generating a 0.00% return.

Equity Markets

Equity investors saw significant portfolio value declines during September. Blue chip stocks, as measured by the S&P 500 Index and the Dow Jones Industrial Average, declined 7.03% and 6.03%, respectively. Small cap stocks fared even worse as they gave up more than 11% in value during the month. International stocks fared worse than their US counterparts with the MSCI EAFE Index declining more than 9.5%.

Market Conditions Update

With the end of the third quarter, investors face an environment of risk and potential opportunity. The risks are manifold and manifest – potential sovereign default in Europe leading to another bank crisis, possible double dip recession in the US amidst decelerating growth across the world, debt-strapped monetary and fiscal authorities with fewer tools available to address the current situation, all in the midst of a highly charged political environment. Yet investors need to be alert for opportunities as well. The fundamental relationship between risky assets and their less-risky comparisons has been changing – markets have essentially been re-pricing risk. The S&P 500 now trades at 12.4 times trailing earnings and has a higher yield than 10-year Treasuries. Emerging market stocks are down almost 22% year-to-date, yet their secular outlook of strong growth, robust demographics, and solid financial positions remains intact. And strategies that can deploy patient capital should be well-positioned to take advantage of the restructurings that must accompany the ongoing financial challenges, particularly in Europe.

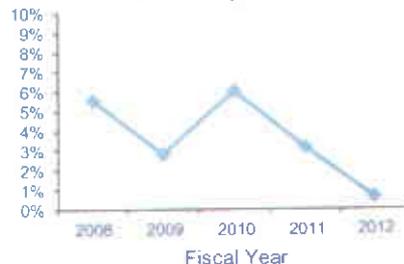
West Virginia Board of Treasury Investments Financial Highlights as of September 30, 2011

WV Short Term Bond Pool

Rates of Return for the Past 12 Months *Net of All Fees*

| <u>October 1 - September 30</u> | <u>Return</u> | <u>Net Assets At Sept. 30 (In Millions)</u> |
|-------------------------------------|---------------|---|
| 2011 | 0.6% | \$ 454.5 |
| 2010 | 3.1% | \$ 460.4 |
| 2009 | 6.0% | \$ 343.5 |
| 2008 | 2.8% | \$ 357.5 |
| 2007 | 5.5% | \$ 234.3 |

**WV Short Term Bond Pool
Rates of Return**
*Past 12 Months
October 1 - September 30*



Prior to July 2007, the WV Short Term Bond Pool was known as the Enhanced Yield Pool

Summary of Value and Earnings (In Thousands)

| <u>Pool</u> | <u>Net Asset Value</u> | <u>Sept. Net Income (Loss)</u> | <u>Fiscal YTD Net Income</u> |
|-----------------------|----------------------------|--|--------------------------------------|
| WV Money Market | \$ 3,269,089 | \$ 286 | \$ 803 |
| WV Gov't Money Market | 351,321 | 17 | 50 |
| WV Short Term Bond | 454,476 | (1,050) | (1,821) |
| WV Bank | 60,051 | 11 | 34 |
| Loss Amortization * | - | - | 13 |
| Loans | 130,707 | 116 | 356 |
| Reserve | 18,984 | 7 | 19 |
| Participant Accounts | 15,772 | 83 | 292 |
| | <u>\$ 4,300,400</u> | <u>(\$530)</u> | <u>(\$254)</u> |

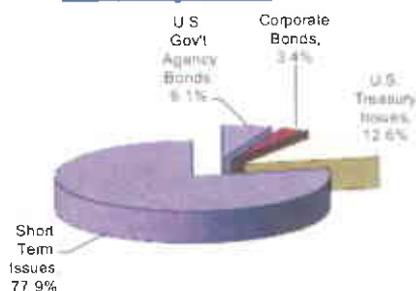
* Closed in August 2011

Percent of Total Net Asset Value

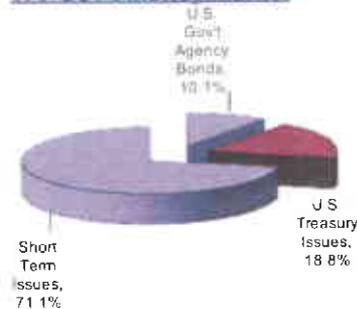


Securities by Type for Operating Pools (Percentage of Asset Value)

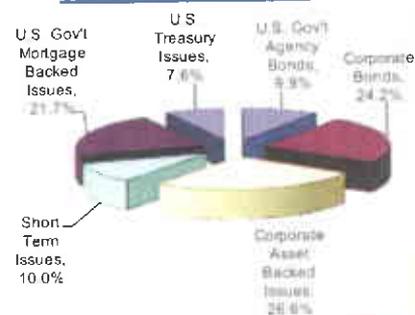
WV Money Market



WV Gov't Money Market



WV Short Term Bond

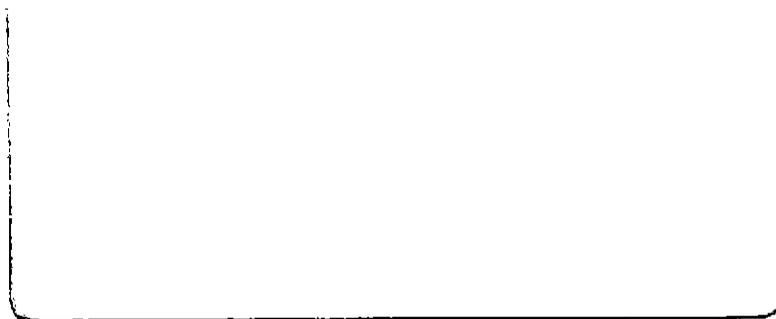


WEST VIRGINIA BOARD OF TREASURY INVESTMENTS
SCHEDULE OF NET ASSETS, OPERATIONS & CHANGES IN NET ASSETS – UNAUDITED

SEPTEMBER 30, 2011

(IN THOUSANDS)

| | <u>WV Money Market Pool</u> | <u>WV Government Money Market Pool</u> | <u>WV Short Term Bond Pool</u> | <u>WV Bank Pool</u> | <u>Other Pools</u> | <u>Participant Directed Accounts</u> |
|--|---------------------------------|--|--|-------------------------|--------------------|--|
| Assets | | | | | | |
| Investments: | | | | | | |
| At amortized cost | \$ 3,267,884 | \$ 351,066 | | \$ 60,015 | \$ 149,569 | \$ 12,465 |
| At fair value | - | - | \$ 453,748 | - | - | 3,177 |
| Cash | - | - | - | - | - | - |
| Other assets | 1,504 | 289 | 1,058 | 37 | 125 | 131 |
| Total assets | <u>3,269,388</u> | <u>351,355</u> | <u>454,806</u> | <u>60,052</u> | <u>149,694</u> | <u>15,773</u> |
| Liabilities | | | | | | |
| Accrued expenses, dividends payable & payable for investments purchased | 299 | 34 | 330 | 1 | 3 | 1 |
| Total liabilities | <u>299</u> | <u>34</u> | <u>330</u> | <u>1</u> | <u>3</u> | <u>1</u> |
| Net Assets | <u>\$ 3,269,089</u> | <u>\$ 351,321</u> | <u>\$ 454,476</u> | <u>\$ 60,051</u> | <u>\$ 149,691</u> | <u>\$ 15,772</u> |
| Investment income | | | | | | |
| Interest and dividends | \$ 520 | \$ 91 | \$ 506 | \$ 12 | \$ 126 | \$ 33 |
| Net accretion (amortization) | (83) | (57) | (156) | - | - | (13) |
| Provision for uncollectible loans | - | - | - | - | - | - |
| Total investment income | <u>437</u> | <u>34</u> | <u>350</u> | <u>12</u> | <u>126</u> | <u>20</u> |
| Expenses | | | | | | |
| Fees | 151 | 17 | 42 | 1 | 3 | - |
| Total expenses | <u>151</u> | <u>17</u> | <u>42</u> | <u>1</u> | <u>3</u> | <u>-</u> |
| Net investment income | <u>286</u> | <u>17</u> | <u>308</u> | <u>11</u> | <u>123</u> | <u>20</u> |
| Net realized gain (loss) from investments | - | - | (85) | - | - | - |
| Net increase (decrease) in fair value of investments | - | - | (1,273) | - | - | 63 |
| Net gain (loss) from investments | - | - | <u>(1,358)</u> | - | - | <u>63</u> |
| Net increase (decrease) in net assets from operations | <u>286</u> | <u>17</u> | <u>(1,050)</u> | <u>11</u> | <u>123</u> | <u>83</u> |
| Distributions to participants | <u>286</u> | <u>17</u> | <u>223</u> | <u>11</u> | <u>122</u> | <u>-</u> |
| Participant activity | | | | | | |
| Purchases, reinvestment of units and contributions | 843,820 | 139,443 | 2,159 | 11 | 122 | 81 |
| Redemptions and withdrawals | 863,617 | 118,793 | 20,050 | - | 1,080 | - |
| Inter-pool transfers in | 20,028 | - | - | 20,000 | - | - |
| Inter-pool transfers out | 20,000 | - | - | 20,028 | - | - |
| Net increase (decrease) in net assets from participant activity | <u>(19,769)</u> | <u>20,650</u> | <u>(17,891)</u> | <u>(17)</u> | <u>(958)</u> | <u>81</u> |
| Increase (decrease) in net assets | (19,769) | 20,650 | (19,164) | (17) | (957) | 164 |
| Net assets at beginning of period | 3,288,858 | 330,671 | 473,640 | 60,068 | 150,648 | 15,608 |
| Net assets at end of period | <u>\$ 3,269,089</u> | <u>\$ 351,321</u> | <u>\$ 454,476</u> | <u>\$ 60,051</u> | <u>\$ 149,691</u> | <u>\$ 15,772</u> |



PERRY & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS, A.C.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
A Component Unit of the State of West Virginia and
West Virginia Department of Transportation**

**Audited Financial Statements with Additional Information
For the Year Ended June 30, 2011
And Independent Accountants' Report**

Perry & Associates
Certified Public Accountants, A.C

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INDEPENDENT ACCOUNTANTS' REPORT

November 10, 2011

Joint Committee on Government and Finance
West Virginia Legislature

We have audited the accompanying financial statements of the governmental activities and each major fund, of the **West Virginia Department of Transportation, Division of Highways** (the Division), a component unit of the State of West Virginia and the West Virginia Department of Transportation, as of and for the year ended June 30, 2011, which collectively comprise the Division's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road (General) Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

West Virginia Department of Transportation
Division of Highways
Independent Accountants' Report
Page Two

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Respectfully submitted,



Perry and Associates
Certified Public Accountants, A.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the West Virginia Department of Transportation, Division of Highways (Division) annual financial report presents our discussion and analysis of the Division's financial performance during the fiscal year that ended June 30, 2011. This section introduces the basic financial statements and provides an analytical overview of the Division's financial activities. Please read it in conjunction with the Division's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Assets - The Division's total combined net assets are \$7.75 billion as of the close of fiscal year 2011.

Changes in Net Assets - During the year the Divisions' Net Assets increased \$226 million or 3.00%. This percentage of increase is a slight increase from the prior year, when Net Assets increased \$176 million or 2.39%.

Revenues and Expenses - Total revenues increased by \$24 million or 1.95%. Total expenses decreased \$26 million or 2.46%. There were no significant changes in the programs carried out by the Division during the year.

Governmental Funds - Fund Balances - As of the close of fiscal year 2011, the Division's governmental funds reported combined total fund equity of \$143 million, a decrease of \$92 million in comparison with the prior year.

Long-term Debt - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by \$34 million during the current fiscal year. There was a bond refinancing in July 2010. The Division's total outstanding special obligation notes, net of note premium, decreased by \$22 million decreasing total long term debt by 12.39% during the current fiscal year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the Division's basic financial statements. The Division's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Statements

Government-wide financial statements provide both long-term and short-term information about the Division's financial condition. Changes in the Division's financial position may be measured over time by increases and decreases in the Statement of Net Assets. Information on how the Division's net assets changed during the fiscal year is presented in the Statement of Activities.

Fund Financial Statements

The fund financial statements focus on the individual parts of the Division, reporting the Division's operations in more detail than the government-wide financial statements. Fund financial statements can include the statements for governmental, proprietary, and fiduciary funds. The Division has only governmental funds.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Net Assets

The following condensed financial information was derived from the government-wide statement of net assets and summarizes the Division's net assets as of June 30, 2011 and 2010 (amounts in thousands).

The largest component (98.72%) of the Division's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure and others) less any related debt outstanding (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. The Division uses these capital assets to provide services to the citizens and businesses in the State; consequently, these net assets are not available for future spending. The remaining portion is classified as either restricted or unrestricted net assets. The unrestricted net assets may be used at the Division's discretion. The restricted net assets have constraints as to how these funds may be used. Enabling legislation directs the use of these funds.

Net Assets as of June 30

| | 2011 | 2010 | % Change |
|---|--------------|--------------|----------|
| Total current assets | \$ 311,710 | \$ 365,756 | -14.78% |
| Capital assets, net of accumulated depreciation | 8,111,197 | 7,852,616 | 3.29% |
| Other non-current assets | 2,331 | 2,378 | -1.98% |
| Total assets | 8,425,238 | 8,220,750 | 2.49% |
| | | | |
| Total current liabilities | 245,763 | 160,055 | 53.55% |
| Long term liabilities | 425,875 | 532,935 | -20.09% |
| Total liabilities | 671,638 | 692,990 | -3.08% |
| | | | |
| Invested in capital assets, net of related debt | 7,654,175 | 7,358,147 | 4.02% |
| Restricted | 14,584 | 17,035 | -14.39% |
| Unrestricted | 84,841 | 152,578 | -44.39% |
| Total net assets | \$ 7,753,600 | \$ 7,527,760 | 3.00% |

Condensed Statement of Activities

The following condensed financial information was derived from the government-wide statement of activities and reflects how the Division's net assets changed during the fiscal year (amounts in thousands):

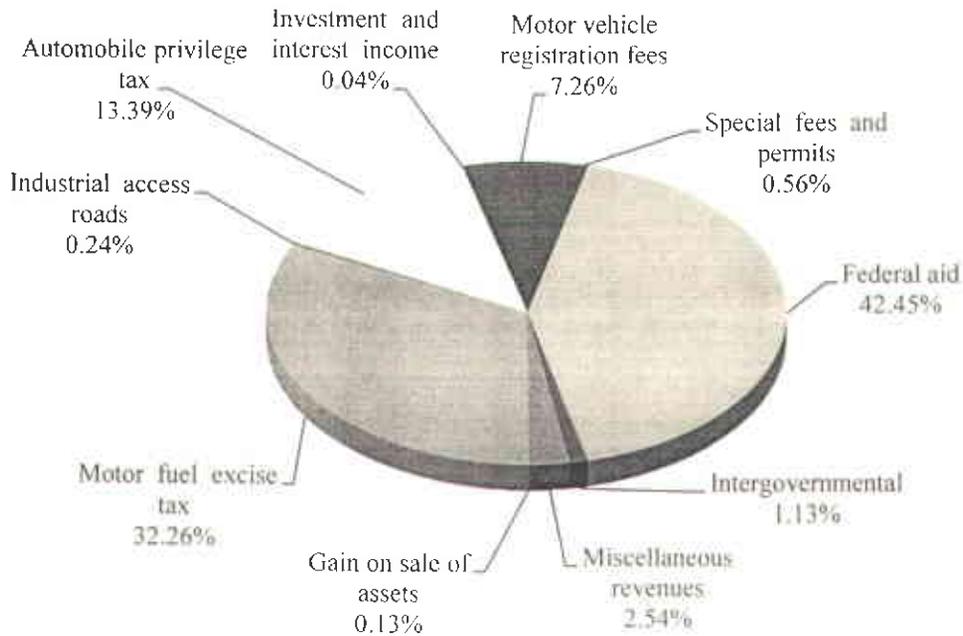
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

| | 2011 | 2010 | % Change |
|----------------------------------|---------------------|---------------------|----------|
| Revenues | | | |
| Taxes | \$ 574,949 | \$ 541,023 | 6.27% |
| Investment and interest income | 517 | (457) | 213.13% |
| Intergovernmental | 14,171 | 41,318 | -65.70% |
| Miscellaneous revenues | 31,945 | 25,012 | 27.72% |
| Gain on sale of assets | 1,673 | - | 0.00% |
| Total general revenues | <u>623,255</u> | <u>606,896</u> | 2.70% |
| Capital grants and contributions | 537,602 | 535,020 | 0.48% |
| Charges for service | 98,558 | 93,393 | 5.53% |
| Total program revenues | <u>636,160</u> | <u>628,413</u> | 1.23% |
| Total revenues | <u>1,259,415</u> | <u>1,235,309</u> | 1.95% |
| Expenses | | | |
| Road maintenance | 433,905 | 411,816 | 5.36% |
| Other road operations | 448,650 | 522,766 | -14.18% |
| General and administration | 126,704 | 99,118 | 27.83% |
| Interest on long-term debt | 20,041 | 22,514 | -10.98% |
| Unallocated depreciation | 4,275 | 3,442 | 24.20% |
| Total expenses | <u>1,033,575</u> | <u>1,059,656</u> | -2.46% |
| Change in net assets | 225,840 | 175,653 | 28.57% |
| Net assets, beginning | <u>7,527,760</u> | <u>7,352,107</u> | 2.39% |
| Net assets, ending | <u>\$ 7,753,600</u> | <u>\$ 7,527,760</u> | 3.00% |

Over time, increases and decreases in net assets measure whether the Division's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$225.8 million or 3.00% percent.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The following chart depicts the revenues of the Division for the fiscal year.



Total revenues increased by approximately \$24 million. Total tax revenues increased by approximately \$34 million. Federal aid revenue increased by approximately \$3 million or .49%. The following summarizes revenues for the years ended June 30, 2011 and June 30, 2010 (amounts in thousands):

| | 2011 | 2010 | Increase (Decrease) | % Increase (Decrease) |
|---------------------------------|---------------------|---------------------|------------------------|--------------------------|
| Motor fuel excise tax | \$ 406,347 | \$ 393,557 | \$ 12,790 | 3.25% |
| Industrial access roads | 3,000 | 3,000 | - | 0.00% |
| Automobile privilege tax | 168,602 | 147,466 | 21,136 | 14.33% |
| Motor vehicle registration fees | 91,475 | 87,600 | 3,875 | 4.42% |
| Special fees and permits | 7,083 | 5,793 | 1,290 | 22.27% |
| Federal aid | 534,602 | 532,020 | 2,582 | 0.49% |
| Investment and interest income | 517 | (457) | 974 | 213.13% |
| Intergovernmental | 14,171 | 41,318 | (27,147) | -65.70% |
| Miscellaneous revenues | 31,945 | 25,012 | 6,933 | 27.72% |
| Gain on sale of assets | 1,673 | - | 1,673 | 0.00% |
| | <u>\$ 1,259,415</u> | <u>\$ 1,235,309</u> | <u>\$ 24,106</u> | 1.95% |

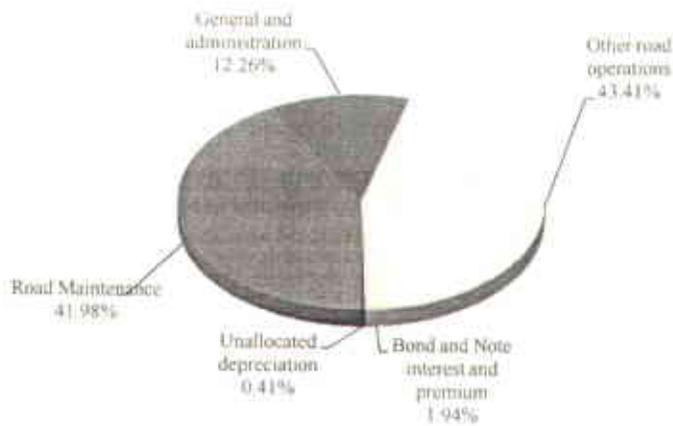
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

The Division's primary sources of revenue for funding of ongoing administration of the Division, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration and license fees, net of costs incurred by the Division of Motor Vehicles in collecting funds for deposit into the State Road Fund.

FY 2011 tax collections reported on a cash basis grew by \$35.1 million (5.60%) over FY 2010 tax collections. Motor Fuel Tax collections were \$17.7 million (4.67%) above estimates and \$6.8 million (1.75%) higher than FY 2010 collections. Privilege Tax collections were \$16.9 million (10.91%) above estimates and \$24.1 million (16.28%) above FY 2010 collections. Registration Fee collections were \$2.2 million (2.47%) above estimates and \$3.8 million (4.36%) above FY 2010 collections. In FY 2012, Motor Fuel Tax, Privilege Tax collections and Registration Fee collections are all projected to be stagnant. As a result, many programs that are operated by the Division will experience little, if any, real growth in the foreseeable future, and it is possible that some programs will be reduced.

The Division also relies on federal funds as a source of revenue. The federal aid is obtained in the form of reimbursable grants. Federal transportation legislation and special spending authorizations provide funds that are available for obligation by the Federal Government in specific years, and the Division expects to continue to fully obligate available funds, thus ensuring that it captures all federal dollars. Revenue under these grants is recognized when expenditures occur on specific projects that have qualified for federal participation. Federal funds received during 2011 were authorized under the Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and the American Recovery and Reinvestment Act of 2009.

The following chart depicts expenses of the Division for the fiscal year.



Total expenses decreased by approximately \$26 million or 2.46%. The following summarizes expenditures for the years ended June 30, 2011 and June 30, 2010 (amounts in thousands):

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

| | 2011 | 2010 | Increase (Decrease) | % Increase (Decrease) |
|----------------------------|---------------------|---------------------|------------------------|--------------------------|
| Road maintenance | \$ 433,905 | \$ 411,816 | \$ 22,089 | 5.36% |
| Other road operations | 448,650 | 522,766 | (74,116) | -14.18% |
| General and administration | 126,704 | 99,118 | 27,586 | 27.83% |
| Interest on long-term debt | 20,041 | 22,514 | (2,473) | -10.98% |
| Unallocated depreciation | 4,275 | 3,442 | 833 | 24.20% |
| | <u>\$ 1,033,575</u> | <u>\$ 1,059,656</u> | <u>\$ (26,081)</u> | -2.46% |

The maintenance expenses of the Division are comprised primarily of routine maintenance, small bridge repair, and contract paving.

Operating units are allocated yearly amounts for routine maintenance. The type of routine maintenance expenses incurred is dependent, to a degree, on the level of snow removal and ice control (SRIC) that is required in a given year. In FY 2011, the agency continued its core maintenance plan, which emphasizes ditching, mowing, brush-cutting, and patching maintenance activities. County crews concentrate on these activities during all non-SRIC periods. The intent is to improve safety and perform maintenance that will extend the life of the highway system.

Other road operations expenditures reported in the Government-Wide Financial Statements include the total expended for all other road operations and small construction activities that fail to meet the criteria established for capitalization as infrastructure assets. A discussion of the change in actual funds expended is included in the financial analysis of the Division's Fund Financial Statements below.

FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUNDS

At June 30, 2011, the Division reported fund balances of approximately \$143 million. Of this total amount \$90 million, 62.81%, constitutes unassigned fund balance, which is available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it is dedicated for various commitments, such as inventories.

State Road Fund

The State Road Fund is the Division's General Fund. At the end of the 2011 fiscal year, unassigned fund balance of the General Fund was \$90 million and nonspendable fund balance was \$39 million while the restricted fund balance was \$15 million. The total General Fund balance decreased \$74 million during the fiscal year primarily due to increased expenditures for road construction, maintenance and rehabilitation projects.

Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code. In general, projects funded with the proceeds of a GARVEE debt instrument are subject to the same requirements as other federal-aid projects. The exception is the reimbursement process; reimbursement of GARVEE project costs occurs when debt service is due rather than when construction costs are incurred. To allow for effective use of federal obligation authority, a state may request partial conversion of GARVEE projects to coincide with GARVEE debt service

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

payments. In West Virginia, under terms of the Memorandum of Agreement between the Federal Highway Administration and the Division of Highways, the yearly debt service must be the first obligation in the federal fiscal year. At June 30, 2011 the capital projects balance was \$0 because all of the remaining funds associated with the 2009A note issue were expended during FY 2011.

State Road (General) Fund and Budgetary Highlights

The Division is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, privilege tax on consumer purchases of motor vehicles, and federal funding generated from motor fuel purchases. Revenues are affected by state and national economic conditions, world events affecting availability and pricing of motor fuel, and fuel consumption rates for motor vehicles. As fuel consumption is forecast to decrease each year through FY 2017, it is expected to have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. Neither Privilege Tax collections nor Registration Fee collections are forecast to increase significantly through FY 2017. The following table summarizes tax and fee collections over the past two years (amounts in thousands):

| | 2011 | 2010 | Increase (Decrease) | % Increase (Decrease) |
|--------------------------------------|-------------------|-------------------|------------------------|--------------------------|
| Motor fuel excise and wholesale fuel | \$ 406,347 | \$ 393,557 | \$ 12,790 | 3.25% |
| Motor vehicle registration | 91,475 | 87,600 | 3,875 | 4.42% |
| Privilege tax | 168,602 | 147,466 | 21,136 | 14.33% |
| | <u>\$ 666,424</u> | <u>\$ 628,623</u> | <u>\$ 37,801</u> | 6.01% |

The gasoline and special fuels excise tax was repealed by HB 218 passed during the 2008 Second Legislative Special Session, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly. The variable rate last changed on January 1, 2009, when the rate rose from 11 cents to 11.7 cents per invoiced gallon. The variable rate remained unchanged in FY 2011.

The Division's federal revenue, on a cash (budgetary) basis for fiscal year 2011 was \$503.8 million, used primarily for design, right-of-way and construction of Corridor II, WV 9, US Route 35 and other major corridors including King Coal Highway, WV 16, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

| | 2011 | 2010 | Increase (Decrease) | % Increase (Decrease) |
|---|-------------------|-------------------|------------------------|--------------------------|
| Federal reimbursement-Budgeted funds | \$ 497,783 | \$ 494,588 | \$ 3,195 | 0.65% |
| Federal reimbursement-Surface Transportation | 27,577 | 27,591 | (14) | -0.05% |
| Federal reimbursement-Emergency funds | 9,242 | 9,842 | (600) | -6.10% |
| | <u>\$ 534,602</u> | <u>\$ 532,021</u> | <u>\$ 2,581</u> | 0.49% |

It is anticipated that state revenues will basically remain unchanged in FY 2012. The Division's revenues are not projected to keep pace with increases in operating costs, and Management has taken steps to maintain a fiscally sound fund equity balance. The FY 2012 budget, exclusive of ARRA projects, which are 100% federally-reimbursed, reflects an approximate \$39 million reduction in expenditures and a \$434 thousand increase in fund balance. If revenues are significantly less than estimated, Management is confident that adequate discretionary expenditure items can be reduced to permit the Division to continue to operate in a fiscally sound manner.

The next six-year federal highway funding authorization is not expected to be enacted prior to the start of FFY 2012. Consequently, the Division expects to receive its obligation authority through continuing resolutions. This will not have any immediate impact on budgets but could eventually lead to a reduction in expenditures due to the Division's reduced funding authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the Division had invested \$8.1 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled \$310 million.

The \$259 million increase in capital assets, net of depreciation, reflects the nature of the State's road system. While the Division continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by \$286 million in depreciation of the infrastructure. The Division expended \$583 million dollars during the year ended June 30, 2011 for additions to capital assets. Of this amount, \$534 million was related to the acquisition of right of way and construction of roads and bridges. Construction costs for completed projects in the amount of \$650 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy County and Grant Counties, completion of new segment of US Route 35 in Mason County, widening of I-79 in Harrison County, upgrade of WV Route 9 in the Eastern Panhandle, upgrade of US Route 52 in Mercer County, Coalfields Expressway in Raleigh County, Fairmont Connector, Mon/Fayette Expressway, and continued environmental studies on various projects in process.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Long-term Debt

The Division has been authorized to issue bonds by constitutional amendments and all bonds are general obligation bonds of the State of West Virginia. All bonds authorized under prior constitutional amendments have been issued. At June 30, 2011, the Division had \$305 million in outstanding bonds. The amount outstanding decreased by \$34 million (10.03%) due to net principal payments of \$31 million and \$3 million reduction due to refinancing the 1998A and 2001A series bonds.

The Division has also been authorized to issue revenue notes in the amount of \$200 million by constitutional amendment. The Division issued revenue notes in the amount of \$76 million in October 2006, \$33 million in April 2007, and \$77 million during fiscal year 2010. These notes are revenue notes and the debt service payments will be funded through federal aid revenue. At June 30, 2011, the Division had \$123 million in outstanding revenue notes. The amount decreased by \$22 million (14.91%) due to net principal payments.

The following is a summary of the amounts outstanding, including insured status and bond and note ratings:

| Issue | Status of insurance | Bond Rating | Amount (in thousands) |
|--|--|--|-----------------------|
| Safe Roads 01A - All Bonds maturing between June 1, 2007 to 2013 | Insured by FGIC | Fitch: AAA Moody's: Aaa S&P: AAA | \$ 13,890 |
| Safe Roads 05A - Bonds maturing on or before June 1, 2025 | Insured by FSA | Fitch: AAA Moody's: Aaa S&P: AAA | 256,435 |
| Safe Roads 10A - Bonds maturing on or before June 1, 2023 | Insured by FSA | Fitch: AAA Moody's: Aaa S&P: AAA | 35,135 |
| Surface Transportation Improvements Special Obligation Notes (Garvee 2006A) - Notes maturing on or before June 1, 2016 | Not Insured - notes maturing Sept 1, 2008 Insured by FSA - notes maturing after Sept 1, 2008 | Fitch: AAA Moody's: Aaa S&P: AAA | 45,915 |
| Surface Transportation Improvements Special Obligation Notes (Garvee 2007A) - Notes Maturing on or before June 1, 2016 | Not Insured - notes maturing Sept 1, 2008 Insured by FSA - notes maturing after Sept 1, 2008 | Fitch: AAA Moody's: Aaa S&P: AAA | 19,900 |
| Surface Transportation Improvements Special Obligation Notes (Garvee 2009A) - Notes Maturing on or before June 1, 2016 | Insured by FSA | Fitch: AAA Moody's: Aaa S&P: AAA | 56,980 |
| | | | <u>\$ 428,255</u> |

More detailed information regarding capital asset and long-term debt activity is included in the notes 7 and 9, respectively to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the finances of the Division for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the West Virginia Department of Transportation, Division of Highways at 1900 Kanawha Boulevard, East, Building 5, Room 220, Charleston, West Virginia 25305.

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 STATEMENT OF NET ASSETS
 JUNE 30, 2011
 (amounts expressed in thousands)

| ASSETS | <u>Governmental Activities</u> |
|---|------------------------------------|
| Current assets | |
| Cash and cash equivalents | \$ 140,934 |
| Accounts receivable, net | 70,861 |
| Taxes receivable | 57,827 |
| Due from other State of West Virginia agencies | 3,309 |
| Inventories | 38,779 |
| Total current assets | <u>311,710</u> |
| Non-current assets | |
| Capital assets not being depreciated | |
| Land - non-infrastructure | 19,680 |
| Land - infrastructure | 956,518 |
| Construction in progress | 972,840 |
| Capital assets net of accumulated depreciation | |
| Land improvements | 7,415 |
| Buildings | 79,169 |
| Furniture and fixtures | 1,139 |
| Rolling stock | 71,437 |
| Scientific equipment | 545 |
| Shop equipment | 53 |
| Roads | 3,900,873 |
| Bridges | 2,101,528 |
| Total capital assets | <u>8,111,197</u> |
| Other non-current assets | <u>2,331</u> |
| Total assets | <u>8,425,238</u> |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | 55,133 |
| Retainages payable | 4,263 |
| Accrued payroll and related liabilities | 19,981 |
| Deferred Revenue | 634 |
| Other Post Employment Benefits Liability | 84,601 |
| Due to other State of West Virginia agencies | 3,601 |
| Accrued interest payable | 3,110 |
| Current maturities of long term obligations | 74,414 |
| Total current liabilities | <u>245,737</u> |
| Non-current liabilities | |
| Claims and judgments | 11,590 |
| Compensated absences | 17,366 |
| Long - term debt obligations | 396,945 |
| Total non-current liabilities | <u>425,901</u> |
| Total liabilities | <u>671,638</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 7,654,175 |
| Restricted | |
| Coal Resource | 3,266 |
| Waste Tire | 2,495 |
| Industrial Access | 8,823 |
| Unrestricted | |
| Total net assets | <u>\$ 7,753,600</u> |

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

| Functions/Programs | Expenses | Program Revenues | | Net Revenue (Expenses) and Changes in Net Assets |
|---------------------------------------|---------------------|-------------------------|--|---|
| | | Charges for Services | Capital Grants and Contributions | |
| Government activities | | | | |
| Road maintenance | | | | |
| Expressway, trunkline & feeder & SLS | \$ 334,484 | \$ - | \$ - | \$ (334,484) |
| Contract paving & secondary roads | 65,809 | - | - | (65,809) |
| Small bridge repair & replacement | 12,199 | - | - | (12,199) |
| Litter control program | 1,699 | - | - | (1,699) |
| Depreciation | 19,714 | - | - | (19,714) |
| Other road operations | | | | |
| Interstate highways | 12,497 | - | 112,134 | 99,637 |
| Appalachian highways | 4,462 | - | 63,239 | 58,777 |
| Other federal aid programs | 142,964 | - | 359,229 | 216,265 |
| Non federal aid improvements | 2,760 | - | - | (2,760) |
| Industrial access roads | 355 | - | 3,000 | 2,645 |
| Depreciation | 285,612 | - | - | (285,612) |
| General and administration | | | | |
| Support and administrative operations | 95,358 | 7,083 | - | (88,275) |
| Claims | (2,940) | - | - | 2,940 |
| Costs associated with DMV | 33,222 | 91,475 | - | 58,253 |
| Costs associated with OAH | 1,064 | - | - | (1,064) |
| Interest on long-term debt | 20,041 | - | - | (20,041) |
| Unallocated depreciation | 4,275 | - | - | (4,275) |
| | <u>\$ 1,033,575</u> | <u>\$ 98,558</u> | <u>\$ 537,602</u> | <u>(397,415)</u> |
| General revenues | | | | |
| Taxes: | | | | |
| Gasoline and motor carrier | | | | 406,347 |
| Automobile privilege | | | | 168,602 |
| Investment and interest income | | | | 517 |
| Intergovernmental | | | | 14,171 |
| Miscellaneous revenues | | | | 31,945 |
| Gain on sale of assets | | | | 1,673 |
| Total general revenues | | | | <u>623,255</u> |
| Change in net assets | | | | 225,840 |
| Net assets, beginning | | | | <u>7,527,760</u> |
| Net assets, ending | | | | <u>\$ 7,753,600</u> |

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2011
 (amounts expressed in thousands)

| | State Road (General) | Capital Projects | Total Governmental Funds |
|---|-------------------------|---------------------|--------------------------------|
| ASSETS | | | |
| Assets | | | |
| Cash and cash equivalents | \$ 140,934 | \$ - | \$ 140,934 |
| Receivables | 70,861 | - | 70,861 |
| Taxes receivable | 57,827 | - | 57,827 |
| Due from other funds | 6,079 | - | 6,079 |
| Due from other State of West Virginia agencies | 3,309 | - | 3,309 |
| Inventories | 38,779 | - | 38,779 |
| | <u>317,789</u> | <u>-</u> | <u>317,789</u> |
| Total assets | | | |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts payable | 55,133 | - | 55,133 |
| Retainages payable | 4,263 | - | 4,263 |
| Accrued payroll and related liabilities | 19,981 | - | 19,981 |
| Deferred revenue | 634 | - | 634 |
| Other post employment benefits | 84,601 | - | 84,601 |
| Due to other funds | 6,079 | - | 6,079 |
| Due to other State of West Virginia agencies | 3,601 | - | 3,601 |
| Total liabilities | <u>174,292</u> | <u>-</u> | <u>174,292</u> |
| Fund balances | | | |
| Nonspendable | 38,779 | - | 38,779 |
| Restricted | | | |
| Construction and maintenance of coal resource roads | 3,266 | - | 3,266 |
| Construction and maintenance of industrial access roads | 8,823 | - | 8,823 |
| Waste tire clean-up | 2,495 | - | 2,495 |
| Unassigned | 90,134 | - | 90,134 |
| Total fund balances | <u>143,497</u> | <u>-</u> | <u>143,497</u> |
| Total liabilities and fund balances | <u>\$ 317,789</u> | <u>\$ -</u> | <u>\$ 317,789</u> |

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011
 (amounts expressed in thousands)

Total fund balances - governmental funds \$ 143,497

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | | |
|--|------------------|-----------|
| Capital assets not being depreciated | | |
| Land - non-infrastructure | \$ 19,680 | |
| Land - infrastructure | 956,518 | |
| Construction in progress | 972,840 | |
| Capital assets net of accumulated depreciation | | |
| Land improvements | 7,415 | |
| Buildings | 79,169 | |
| Furniture and fixtures | 1,139 | |
| Rolling stock | 71,437 | |
| Scientific equipment | 545 | |
| Shop equipment | 53 | |
| Roads | 3,900,873 | |
| Bridges | <u>2,101,528</u> | 8,111,197 |

Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets. 2,331

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | | |
|--|------------------|------------------|
| Accrued interest payable | (3,110) | |
| Claims and judgments | (13,981) | |
| Compensated absences | (29,312) | |
| General obligation bonds and revenue notes | <u>(457,022)</u> | <u>(503,425)</u> |

Net assets of governmental activities \$ 7,753,600

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

| | State Road (General) | Capital Projects | Total Governmental Funds |
|--|-------------------------|---------------------|--------------------------------|
| Revenues | | | |
| Taxes | | | |
| Gasoline and motor carrier | \$ 406,347 | \$ - | \$ 406,347 |
| Automobile privilege | 168,602 | - | 168,602 |
| Industrial access roads | 3,000 | - | 3,000 |
| License, fees and permits | | | |
| Motor vehicle registrations and licenses | 91,475 | - | 91,475 |
| Special fees and permits | 7,083 | - | 7,083 |
| Federal aid | | | |
| Interstate highways | 112,134 | - | 112,134 |
| Appalachian highways | 63,239 | - | 63,239 |
| Other federal aid programs | 359,229 | - | 359,229 |
| Investment and interest income, net of arbitrage rebate | 509 | - | 517 |
| Intergovernmental | 14,171 | - | 14,171 |
| Miscellaneous revenues | 31,945 | - | 31,945 |
| Total revenues | <u>1,257,734</u> | <u>-</u> | <u>1,257,742</u> |
| Expenditures | | | |
| Current | | | |
| Road maintenance | | | |
| Expressway, trunkline and feeder, state and local services | 334,608 | - | 334,608 |
| Contract paving and secondary roads | 65,809 | - | 65,809 |
| Small bridge repair and replacement | 23,595 | - | 23,595 |
| Litter control program | 1,699 | - | 1,699 |
| Support and administrative operations | 129,104 | - | 129,104 |
| Division of Motor Vehicles operations | 33,222 | - | 33,222 |
| Office of Administration Hearings operations | 1,064 | - | 1,064 |
| Claims | 1,563 | - | 1,563 |
| Capital outlay and other road operations | | | |
| Road construction and other road operations | | | |
| Interstate highways | 128,278 | - | 128,278 |
| Appalachian highways | 84,470 | - | 84,470 |
| Other federal aid programs | 426,768 | 18,036 | 444,804 |
| Nonfederal aid construction and road operations | 27,717 | - | 27,717 |
| Industrial access roads | 355 | - | 355 |
| Debt service | | | |
| Bond issue cost | 442 | - | 442 |
| Principal | 52,980 | - | 52,980 |
| Interest | 22,829 | - | 22,829 |
| Total expenditures | <u>1,334,503</u> | <u>18,036</u> | <u>1,352,539</u> |
| Excess (deficiency) of revenues over expenditures | (76,769) | (18,028) | (94,797) |
| Other financing sources (uses) | | | |
| Refunding bonds issued | 35,135 | - | 35,135 |
| Premium on refunding bonds | 2,913 | - | 2,913 |
| Payment to refunded bond escrow agent | (37,730) | - | (37,730) |
| Proceeds from sale of assets | 2,506 | - | 2,506 |
| Total other financing sources (uses) | <u>2,824</u> | <u>-</u> | <u>2,824</u> |
| Net change in fund balances | (73,945) | (18,028) | (91,973) |
| Fund balances, beginning of year | 217,442 | 18,028 | 235,470 |
| Fund balances, end of year | <u>\$ 143,497</u> | <u>\$ -</u> | <u>\$ 143,497</u> |

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ (91,973)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$ 569,025 exceeded depreciation of (\$ 309,601) in the current period. 259,424

In the statement of activities only the loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in the net assets differs from the change in fund balance by the undepreciated cost of the assets sold. (833)

Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds. 55,575

Bond premium is recognized on the fund balance statement as a revenue in the period the bonds are issued, but increases long-term liabilities in the statement of net assets. (2,913)

Bond issue costs are reported in the fund statements as expenses in the period the bonds are issued, but increase other assets on the statement of activities. 440

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increases in compensated absences of (\$1,162) and bond accretions (\$1,246), exceed the decrease in interest payable of \$462, claims of \$4,503, and the amortizations of bond issue cost of \$3,563. 6,120

Change in net assets of governmental activities \$ 225,840

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 (BUDGETARY BASIS) - STATE ROAD FUND
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

| | Original Budget | Budget Amendments | Final Budget | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|--------------------|----------------------|------------------|-------------------|--|
| Revenues | | | | | |
| Taxes | | | | | |
| Gasoline and motor carrier | \$ 380,000 | \$ - | \$ 380,000 | \$ 397,749 | \$ 17,749 |
| Automobile privilege | 155,492 | - | 155,492 | 172,453 | 16,961 |
| Motor vehicle registrations and licenses | 88,995 | - | 88,995 | 91,195 | 2,200 |
| Revenue Transfer to Industrial Access Roads | (3,000) | - | (3,000) | (3,000) | - |
| Federal aid | 669,500 | (88,500) | 581,000 | 503,818 | (77,182) |
| Miscellaneous revenues | 34,819 | - | 34,819 | 29,097 | (5,722) |
| | <u>1,325,806</u> | <u>(88,500)</u> | <u>1,237,306</u> | <u>1,191,312</u> | <u>(45,994)</u> |
| Expenditures | | | | | |
| Road construction and other road operations | | | | | |
| Interstate highways | 125,000 | 35,000 | 160,000 | 133,707 | 26,293 |
| Appalachian highways | 115,000 | - | 115,000 | 74,104 | 40,896 |
| Other federal aid programs | 325,700 | - | 325,700 | 324,629 | 1,071 |
| Nonfederal aid construction | 25,000 | 3,000 | 28,000 | 22,789 | 5,211 |
| Federal economic stimulus | 205,000 | (120,000) | 85,000 | 84,998 | 2 |
| Road maintenance | | | | | |
| Maintenance | 320,096 | 19,000 | 339,096 | 337,439 | 1,657 |
| Contract paving and secondary roads | 70,000 | - | 70,000 | 66,744 | 3,256 |
| Small bridge repair and replacement | 40,000 | - | 40,000 | 23,881 | 16,119 |
| Litter control program | 1,699 | - | 1,699 | 1,699 | - |
| Support and administrative operations | | | | | |
| General operations | 56,400 | (1,400) | 55,000 | 52,298 | 2,702 |
| Equipment revolving | 15,000 | - | 15,000 | 12,470 | 2,530 |
| Inventory revolving | 4,000 | - | 4,000 | 1,174 | 2,826 |
| Debt service | 50,000 | (2,000) | 48,000 | 48,000 | - |
| Division of Motor Vehicles operations | 37,830 | - | 37,830 | 33,567 | 4,263 |
| Office of Administrative Hearings operations | - | 1,600 | 1,600 | 985 | 615 |
| Claims - DOH and DMV | 1,565 | (1) | 1,564 | 1,563 | 1 |
| | <u>1,392,290</u> | <u>(64,801)</u> | <u>1,327,489</u> | <u>1,220,047</u> | <u>107,442</u> |
| Excess (deficiency) of revenues over expenditures | (66,484) | (23,699) | (90,183) | (28,735) | 61,448 |
| Fund balance, beginning of year | <u>154,628</u> | <u>-</u> | <u>154,628</u> | <u>154,628</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 88,144</u> | <u>\$ (23,699)</u> | <u>\$ 64,445</u> | <u>\$ 125,893</u> | <u>\$ 61,448</u> |

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The accompanying financial statements of the West Virginia Department of Transportation, Division of Highways (the "Division") have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

REPORTING ENTITY - The Division is an operating unit of the West Virginia Department of Transportation and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. The Division is a legally separate entity defined by the State constitution, and has statutory responsibility for the construction, reconstruction, maintenance, and improvement of all State roads. The Division is governed by a commissioner who is appointed by the Governor, but does not have a governing board separate from the State Legislature. The Division is considered a component unit of the State and its financial statements are blended with the financial statements of the primary government in the State's comprehensive annual financial report.

The financial statements of the Division are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the West Virginia Department of Transportation and the State of West Virginia, that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the West Virginia Department of Transportation or the State of West Virginia as of June 30, 2011 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has considered all potential component units to be included in the Division's reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. These criteria include consideration of organizations for which the Division is financially accountable, or organizations for which the nature and significance of their relationship with the Division are such that exclusion would cause the Division's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Division has no component units.

The Division of Motor Vehicles is an operating division of the West Virginia Department of Transportation, which collects certain revenues for expenditure by the Division. The expenditures related to the collection of these revenues are recorded in the State Road Fund of the Division.

The Public Service Commission collects revenues from coal companies that are operating trucks with excessive weights. These revenues are deposited into the Coal Resource Fund, which is controlled by the Division.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Division does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. The government-wide statement of net assets reports \$14,584 restricted assets, of which all is restricted by enabling legislation.

When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources, as they are needed. Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and major component units, if applicable. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds and major individual enterprise funds, if applicable, are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION -

GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

GOVERNMENTAL FUND FINANCIAL STATEMENTS - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. Principal revenues subject to accrual include gasoline and wholesale fuel taxes, automobile privilege taxes, federal reimbursements and other reimbursements for use of materials and services.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting for the governmental fund financial statements include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2011, has been reported only in the government-wide financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Division employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Division, an employee's sick leave benefits are considered ended and no reimbursement is provided. Any employee who retires, however, may convert any unused accumulated sick leave to increase service credits for retirement purposes. Additionally, certain employees may choose to apply any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium in lieu of increasing their service credits. Those employees cannot split their unused leave between the two options.
- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for transfer to the fiscal agent or for payment to be made early in the following year.
- Claims and judgments are recorded only when payment is due.

FUND ACCOUNTING - The Division uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The following summarizes the major governmental funds that are presented in the accompanying financial statements:

- State Road (General) Fund - This fund serves as the Division's general fund and is used to account for all financial resources, except those required to be accounted for in another fund. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.
- The Capital Projects Fund - This fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code.

INTERFUND ACTIVITY - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges from the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Division processes certain routine payments, such as payroll through the State Road Fund and allocates those costs to the other governmental funds based on individual projects charged. The interfund balances at June 30, 2011 are a result of these routine payments and transfers.

BUDGETING AND BUDGETARY CONTROL - The Division's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year-end to allow for payment of invoices up to 45 days after year-end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 45 days after the end of the fiscal year, are incorporated into the Division's overall financial plan, which includes revenue estimates developed by the Division and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories of construction, maintenance, and operations, as well as special items. Any revisions that alter overall budgeted expenditures for an expenditure category must be approved by the State Legislature.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's State Road (General) Fund which includes the State Road Fund and A. James Manchin Fund has a legislatively approved budget. However, the Coal Resource Fund, Industrial Access Fund and certain monies reported within the State Road Fund in accordance with accounting principles generally accepted in the United States of America are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these funds have not been reported in the Division's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2011, on the budgetary basis to the GAAP basis for the State Road fund follows:

| | | |
|--|----|-----------------|
| Excess of revenues over expenditures - budgetary basis | \$ | (28,735) |
| Basis of accounting differences (budgetary to GAAP) | | (53,470) |
| Unbudgeted funds | | <u>8,260</u> |
| Deficiency of revenues over expenditures - GAAP basis | \$ | <u>(73,945)</u> |

CASH AND CASH EQUIVALENTS - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI). Interest income from these investments is prorated to the Division at rates specified by the BTI based on the balance of the Division's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Deposits are available with overnight notice to the BTI.

The STO has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The STO determines which funds to transfer to the BTI for investment in accordance with the West Virginia Code, policies set by the BTI, and provisions of bond indentures and trust agreements when applicable. The West Virginia Legislature, effective July 8, 2005, established the BTI to manage the short-term operating funds of the State. Prior to this date, the West Virginia Investment Management Board (the "IMB") was responsible for investment of both the short-term and long-term funds. The Legislature declared this transfer to ensure direct governmental oversight of state general and special revenue funds. The IMB continues to manage the retirement funds, the employment security funds, and other assets with longer time horizons.

INVENTORIES - Inventories are stated at weighted average cost generally using the "consumption method" whereby expenditures are recognized in the period in which inventory usage, as opposed to purchase, occurs. The portion of fund balance relating to inventories is reported as "Reserve for inventories" in the Government Fund Financial Statements.

CAPITAL ASSETS - Capital assets, which include buildings, non-infrastructure land, furniture and fixtures, rolling stock, scientific equipment, shop equipment and infrastructure assets (which are normally immovable and of value only to the Division, such as roads, bridges, and similar items), are reported in the statement of net assets in the government-wide financial statements. Capital assets are defined by the Division as follows:

- Non-infrastructure assets with a useful life of at least three years and:
 - A cost of five thousand dollars or more for machinery, equipment, rolling stock, furniture and fixtures; or
 - An acquisition cost of twenty-five thousand dollars or more for buildings at the date of acquisition; and
- Infrastructure assets with a cost in excess of one million dollars.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
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(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at their fair market value at the date of donation.

The estimates of historical costs of buildings and other improvements were based on values that were compiled in 1983. Buildings and non-infrastructure land have been recorded at cost since 1983. Infrastructure constructed from July 1, 1980 to July 1, 2001 has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by the West Virginia Department of Transportation in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. The Division has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets are depreciated on the straight-line method over the assets' estimated useful lives. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

- Machinery and equipment: 5 - 20 years
- Buildings: 40 years
- Furniture and fixtures: 3 - 20 years
- Rolling stock: 3 - 20 years
- Scientific equipment: 3 - 25 years
- Infrastructure: roads - 30 years
- Infrastructure: bridges - 50 years

ACCOUNTS AND TAXES RECLIVABLE - Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Governmental fund type receivables consist primarily of amounts due from the Federal government. Interest and investment revenue receivable in all funds consist of revenues due on each investment. Taxes receivable in governmental funds represent taxes subject to accrual, primarily motor fuel excise taxes and automobile privilege taxes, which are collected within forty-five days after year end. The uncollectible amounts are based on collection experience and a review of the status of existing receivables.

OTHER ASSETS - Other assets represent payments that reflect costs applicable to future accounting periods and are recorded as other assets in both government-wide and fund financial statements.

CLAIMS - Claims awarded against the Division in the West Virginia State Court of Claims must be approved and funded by legislative action. Expenditures in the fund financial statements for such claims are recognized to the extent that claims awarded are approved and funded by the Legislature. A liability for unfunded claims is recorded in the government-wide financial statements when management and the Division's legal section determine that it is probable that a loss has occurred and the loss can be reasonably estimated. Such claims are segregated as either tort or contract actions and estimates of loss are based on an analysis of the individual claims and historical experience.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES - Division employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. During 2008, the legislature passed a bill allowing regular full time employees hired before July 1, 2001, having accumulated at least 65 days of sick leave, to be paid, at their option, for a portion of their unused sick leave, not to exceed the number of sick leave days that would reduce the employee's sick leave balance to less than fifty days. The employee shall be paid at a rate equal to one quarter of their usual rate of daily pay during that calendar year. Expenditures for compensated absences are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated compensated absences as a liability.

POSTEMPLOYMENT BENEFITS - For employees hired prior to July 1, 2001, any unused sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes, based on hire dates, periods of service and benefit amendments. To the extent that eligible conversion and retirement benefits are determined, a liability in the governmental fund financial statements has been accrued as a result of the Division's participation on the State's post-employment benefits plan, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. See Note 13.

RETIREMENT BENEFITS - The Division's employees are covered by the West Virginia Public Employees Retirement System (PERS), a multi-employer cost-sharing defined benefit pension plan. PERS covers substantially all employees of the Division, with employer contributions prescribed by the State Legislature as a percentage of covered payroll.

PREMIUMS, DISCOUNTS AND ISSUANCE COSTS - In the government-wide financial statements long-term debt and other long-term obligations are presented in the columns for governmental activities. Where material, bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

INTERGOVERNMENTAL REVENUE - Intergovernmental revenue represents legally authorized appropriations under West Virginia State Code by the West Virginia Legislature.

NET ASSETS - As required by GASB Statement No. 34, the Division displays net assets in the government-wide financial statements in three components: invested in capital assets, net of related debt; restricted and unrestricted.

INVESTED IN CAPITAL ASSETS - This component of net assets consists primarily of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

RESTRICTED NET ASSETS - Restricted net assets are assets whose use or availability has been restricted and the restrictions limit the Division's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Division's policy to use restricted resources first, then unrestricted resources as needed.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
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(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

UNRESTRICTED NET ASSETS -- Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." In the governmental environment, net assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statement of net assets.

FUND BALANCE -- In accordance with GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* the division has classified in the governmental fund financial statements its fund balances in the following categories: nonspendable, restricted, committed, assigned and unassigned as applicable.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

The restricted fund balance classification includes amounts restricted for use to specific purposes including externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; imposed by law through constitutional provisions, or enabling legislation including *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation. *Legal enforceability* means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed amounts reported in fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the West Virginia State Legislature. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. The Division has no committed fund balances at June 30, 2011.

Amounts that are constrained by the Division's *intent* to be used for specific purposes as expressed by the West Virginia State Legislature or budget and or finance officers of the Division to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance. The Division has no assigned fund balances at June 30, 2011.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Division considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; and committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTES TO THE FINANCIAL STATEMENTS
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(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECENT STATEMENTS ISSUED BY THE GASB –

The Governmental Accounting Standards Board has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for fiscal years beginning after December 15, 2011. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The Division has not yet determined the effect that the adoption of GASB Statement No. 60 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, effective for fiscal years beginning after June 15, 2012. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The Division has not yet determined the effect that the adoption of GASB Statement No. 61 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The Division has not yet determined the effect that the adoption of GASB Statement No. 62 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – an amendment of GASB Statements No. 3, No. 6, No. 10, No. 15, No. 17, No. 23, No. 25, No. 27, No. 28, No. 31, and No. 33*, effective for fiscal years beginning after December 15, 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Division has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statements No. 53*, effective for fiscal years beginning after June 15, 2011. This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty or sap counterparty's credit support provider is replaced. The Division has not yet determined the effect that the adoption of GASB Statement No. 64 may have on its financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents were as follows at June 30:

| | Amortized Cost | Estimated Fair Value |
|---|-------------------|-------------------------|
| Cash on deposit with State Treasurer | \$ 17,130 | \$ 17,130 |
| Cash on deposit with State Treasurer in Debt Service Fund | 10 | 10 |
| Cash on deposit with State Treasurer invested in BTI WV Money Market Pool | 98,275 | 98,275 |
| Cash on deposit with State Treasurer invested in BTI WV Short Term Bond Pool | 25,511 | 25,511 |
| Cash in transit | 8 | 8 |
| | \$ 140,934 | \$ 140,934 |

West Virginia Board of Treasury Investments (BTI) WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool

Cash on deposit with the State Treasurer is a non-safeguarded deposit in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments, (including Repurchase Agreements), and Reverse Repurchase Agreements*. Additionally, such deposits are subject to the following BTI policies and procedures.

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI's investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of the Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the Consolidated Fund.

WV Money Market Pool

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The BTI's WV Money Market pool has been rated AAAm by Standard & Poor's. A fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

“AAAm” is the highest principal stability fund rating assigned by Standard & Poor’s. Neither the BTI itself nor any of the other Consolidated Fund pools or accounts has been rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P1 by Moody’s. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the WV Money Market Pool’s investments (in thousands):

| Security Type | Credit Rating | | Carrying Value | Percent of Pool Assets |
|--|---------------|------|----------------|------------------------|
| | Moody’s | S&P | | |
| Commercial paper | P-1 | A-1 | \$ 1,069,576 | 35.43% |
| Corporate bonds and notes | Aa1 | AA | 10,000 | 33 |
| | Aa2 | AA | 33,000 | 1.09 |
| | Aa3 | AA | 31,000 | 1.03 |
| | Aa3 | A | 53,000 | 1.76 |
| Total corporate bonds and notes | | | 127,000 | 4.21 |
| U.S. agency bonds | Aaa | AAA | 170,788 | 5.66 |
| U.S. Treasury notes* | Aaa | AAA | 298,345 | 9.88 |
| U.S. Treasury bills* | Aaa | AAA | 231,051 | 7.65 |
| Negotiable Certificates of deposit | P-1 | A-1 | 140,000 | 4.61 |
| U.S. agency discount notes | P-1 | A-1 | 697,164 | 23.10 |
| Money market funds | Aaa | AAAm | 200,279 | 6.64 |
| Repurchase agreements (underlying securities): | | | | |
| U.S. Treasury notes * | Aaa | AAA | 69,557 | 2.30 |
| U.S. agency notes | Aaa | AAA | 14,800 | 0.49 |
| Total repurchase agreements | | | 84,357 | 2.79 |
| Total Money Market Pool | | | \$ 3,018,560 | 100.00% |

*U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2011, the WV Money Market Pool investments had a total carrying value of \$3,018,560, of which the Division’s ownership represents 3.26%.

WV Short Term Bond Pool

Credit risk – The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P-1 by Moody’s. The following table provides information on the credit ratings of the WV Short Term Bond Pool’s investments (in thousands):

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

| Security Type | Credit Rating | | Carrying Value | Percent of Pool Assets |
|--|---------------|-------|----------------|------------------------|
| | Moody's | S&P | | |
| Corporate asset backed securities | Aaa | AAA | \$ 87,197 | 18.40 |
| | Aaa | NR* | 19,891 | 4.20 |
| | ** Aa3 | AA+ | 454 | 0.10 |
| | ** B1 | CCC | 885 | 0.19 |
| | ** B3 | B | 366 | 0.08 |
| | ** B3 | BBB | 631 | 0.13 |
| | ** Ca | CCC | 664 | 0.14 |
| | ** Caa2 | CCC | 473 | 0.10 |
| | ** Caa3 | CCC | 393 | 0.08 |
| | ** Caa3 | D | 27 | 0.01 |
| | NR | NR | 4,000 | 0.84 |
| Total corporate asset backed securities | | | 114,981 | 24.27 |
| Corporate bonds and notes | Aaa | AA | 2,043 | 0.43 |
| | Aa1 | A | 4,143 | 0.87 |
| | Aa2 | AA | 11,866 | 2.50 |
| | Aa3 | AA | 7,064 | 1.49 |
| | Aa3 | A | 13,040 | 2.75 |
| | A1 | AA | 8,107 | 1.71 |
| | A1 | A | 22,731 | 4.80 |
| | A2 | AA | 2,555 | 0.54 |
| | A2 | A | 23,976 | 5.06 |
| | A3 | A | 8,770 | 1.85 |
| Total corporate bonds and notes | | | 104,295 | 22.00 |
| Commercial paper | P-1 | A-1 | 15,995 | 3.38 |
| U.S. agency bonds | Aaa | AAA | 20,017 | 4.22 |
| U.S. Treasury notes*** | Aaa | AAA | 25,034 | 5.28 |
| U.S. agency mortgage backed securities**** | Aaa | AAA | 97,296 | 20.53 |
| Money market Funds | Aaa | AAA m | 96,287 | 20.32 |
| | | | \$ 473,905 | 100.00% |

* NR = Not Rated

** These securities were not in compliance with BTI Investment Policy at June 30, 2011. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

*** U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

**** U.S. agency mortgage backed securities are issued by the Government National Mortgage Association and are explicitly guaranteed by the United States government and are not subject to credit risk.

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 DIVISION OF HIGHWAYS
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NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2011, the Division's ownership represents 5.38% of these amounts held by BTI.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All BTI Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

| Security Type | Carrying Value (In Thousands) | WAM (Days) |
|----------------------------|----------------------------------|---------------|
| Repurchase agreements | \$ 84,357 | 1 |
| U.S. Treasury notes | 298,345 | 137 |
| U.S. Treasury bills | 231,051 | 34 |
| Commercial paper | 1,069,576 | 35 |
| Certificates of deposit | 140,000 | 58 |
| U.S. agency discount notes | 697,164 | 45 |
| Corporate bonds and notes | 127,000 | 20 |
| U.S. agency bonds/notes | 170,788 | 66 |
| Money market funds | 200,279 | 1 |
| | <u>\$ 3,018,560</u> | 46 |

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
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 (amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

| Security Type | Carrying Value (In Thousands) | Effective Duration (Days) |
|--|-----------------------------------|---------------------------------|
| U.S. Treasury bonds/notes | \$ 25,034 | 227 |
| Commercial paper | 15,995 | 55 |
| Corporate notes | 104,295 | 234 |
| Corporate asset backed securities | 114,981 | 268 |
| U.S. agency bonds/notes | 20,017 | 85 |
| U.S. agency mortgage backed securities | 97,296 | 18 |
| Money market fund | 96,287 | 1 |
| | \$ 473,905 | 138 |

Other Investment Risks

Other risks of investing can include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of a BTI Consolidated Fund Pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in a pool managed by the securities lending agent. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Securities Lending

At June 30, 2011, the fair value of securities on loan and the collateral held by the pools of the BTI are as follows. Of the collateral held, \$10,692,488 was received as cash. The collateral received as cash is invested in a collateral pool. For securities loaned at June 30, 2011, the BTI has no credit risk exposure to borrowers because the amount the BTI owes the borrowers exceeds the amounts the borrowers owe the BTI. There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provisions. The BTI is exposed to cash reinvestment risk, which is the risk that the cash reinvestment assets would not be sufficient to cover the liabilities due the borrowing brokers.

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NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Maturities of investments made with cash collateral are not matched to maturities of securities loaned.

| | Fair Value of Securities on Loan | Collateral Held |
|----------------------|-------------------------------------|-----------------|
| WV Money Market Pool | \$ 10,479,134 | \$ 10,692,488 |

The collateral pool is established as a segregated account and managed by Clearlend. The Pool is managed in a fashion to reduce loan exposure over time and to allow the BTI to unwind its securities lending program. The pool is also managed to:

- Reduce the loan exposure in line with collateral liquidity to prevent unnecessary realized losses;
- Use revenue or collateral gains to offset realized losses to limit cash injections required; and
- Continue to meet Standard & Poor's ratings and broader regulatory and statutory guidelines throughout the unwind process.

BTI wound down its securities lending program to avoid the increased risks associated with securities lending activities. The BTI exited the securities lending program in July 2011.

Deposits

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011 consisted of the following:

| | |
|------------------------------------|-----------|
| Federal aid billed and not paid | \$ 3,401 |
| Federal aid earned but not billed | 57,793 |
| Total federal aid receivable | 61,194 |
| Other receivables | 10,159 |
| Combined total receivables | 71,353 |
| Less: allowance for uncollectibles | (492) |
| Net accounts receivable | \$ 70,861 |

Accounts receivable representing federal aid earned but not billed relate principally to the Federal Highway Administration's (FHWA) participating share of expenditures on highway projects.

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NOTE 4: TAXES RECEIVABLE

Taxes receivable at June 30, 2011 consisted of the following:

| | |
|----------------------------|-----------------------------|
| Automobile privilege taxes | \$ 15,609 |
| Motor fuel excise taxes | 38,851 |
| Registration fees | <u>3,367</u> |
| Total taxes receivable | <u><u>\$ 57,827</u></u> |

NOTE 5: DUE FROM/TO OTHER STATE OF WEST VIRGINIA AGENCIES

Amounts due from other State of West Virginia agencies at June 30, 2011 consisted of the following:

| | |
|--|----------------------------|
| The Department of Motor Vehicles | \$ 2,299 |
| Other agencies | <u>1,010</u> |
| Total amounts due from other State of West Virginia agencies | <u><u>\$ 3,309</u></u> |

Amounts due to other State of West Virginia agencies at June 30, 2011 consisted of the following:

| | |
|--|----------------------------|
| Public Employees Insurance Agency | \$ 1,829 |
| Public Employee's Retirement | 1,692 |
| Other agencies | <u>80</u> |
| Total amounts due to other State of West Virginia agencies | <u><u>\$ 3,601</u></u> |

NOTE 6: INVENTORIES

Inventories at June 30, 2011 consisted of the following:

| | |
|------------------------------|-----------------------------|
| Materials and supplies | \$ 26,166 |
| Equipment repair parts | 8,914 |
| Gas and lubrication supplies | <u>3,699</u> |
| Total inventories | <u><u>\$ 38,779</u></u> |

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
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NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

| | Balance July 1, 2010 | Increases | Decreases | Balance June 30, 2011 |
|--|-------------------------|-------------------|-------------------|--------------------------|
| Capital assets not being depreciated: | | | | |
| Land - non infrastructure | \$ 15,477 | \$ 4,225 | \$ 22 | \$ 19,680 |
| Land - infrastructure | 928,577 | 28,269 | 328 | 956,518 |
| Construction-in-progress - buildings | 14,351 | 13,141 | 13,005 | 14,487 |
| Construction-in-progress - land improvements | 573 | 1,141 | 1,312 | 402 |
| Construction-in-progress - roads | 846,980 | 302,212 | 392,790 | 756,402 |
| Construction-in-progress - bridges | 255,161 | 203,280 | 256,892 | 201,549 |
| Total capital assets not being depreciated | <u>2,061,119</u> | <u>552,268</u> | <u>664,349</u> | <u>1,949,038</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 112,102 | 13,005 | 108 | 124,999 |
| Furniture and fixtures | 4,131 | 707 | 201 | 4,637 |
| Land improvements - non infrastructure | 10,053 | 1,312 | - | 11,365 |
| Rolling stock | 237,739 | 15,955 | 12,505 | 241,189 |
| Shop equipment | 3,050 | 7 | - | 3,057 |
| Scientific equipment | 2,785 | 88 | - | 2,873 |
| Infrastructure - roads | 7,735,618 | 392,790 | - | 8,128,408 |
| Infrastructure - bridges | 2,345,370 | 256,892 | - | 2,602,262 |
| Total capital assets being depreciated | <u>10,450,848</u> | <u>680,756</u> | <u>12,814</u> | <u>11,118,790</u> |
| Less accumulated depreciation: | | | | |
| Buildings | 42,286 | 3,608 | 64 | 45,830 |
| Furniture and fixtures | 3,535 | 164 | 201 | 3,498 |
| Land improvements - non infrastructure | 3,447 | 503 | - | 3,950 |
| Rolling stock | 162,284 | 19,524 | 12,056 | 169,752 |
| Shop equipment | 2,992 | 12 | - | 3,004 |
| Scientific equipment | 2,150 | 178 | - | 2,328 |
| Infrastructure - roads | 3,990,300 | 237,235 | - | 4,227,535 |
| Infrastructure - bridges | 452,357 | 48,377 | - | 500,734 |
| Total accumulated depreciation | <u>4,659,351</u> | <u>309,601</u> | <u>12,321</u> | <u>4,956,631</u> |
| Total capital assets being depreciated, net | <u>5,791,497</u> | <u>371,155</u> | <u>493</u> | <u>6,162,159</u> |
| Governmental activities capital assets, net | <u>\$ 7,852,616</u> | <u>\$ 923,423</u> | <u>\$ 664,842</u> | <u>\$ 8,111,197</u> |

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 7: CAPITAL ASSETS (Continued)

Current year depreciation totaling \$305,326 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining \$4,275 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Division.

A summary of depreciation on each capital asset type follows:

| <u>Asset Type</u> | <u>Depreciation</u> |
|-----------------------------|---------------------|
| Buildings and improvements | \$ 3,608 |
| Furniture and fixtures | 164 |
| Land improvements | 503 |
| Total unallocated | 4,275 |
| Rolling stock | 19,524 |
| Shop equipment | 12 |
| Scientific equipment | 178 |
| Total road maintenance | 19,714 |
| Infrastructure - roads | 237,235 |
| Infrastructure - bridges | 48,377 |
| Total other road operations | 285,612 |
| Total depreciation expense | \$ 309,601 |

NOTE 8: RETAINAGES PAYABLE

Retainages payable includes funds withheld from payments to consulting firms and construction contractors. Retainage payments are made to the consultants and contractors when work is satisfactorily completed. The Division has entered into an arrangement with the BTI whereby amounts retained from payments to construction contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. The funds on deposit in these accounts are not reported as assets of the Division. At June 30, 2011, retainages payable included \$237 that was on deposit at BTI for construction contractors.

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NOTE 9: LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2011, and changes for the fiscal year then ended are as follows:

| | Issue Date | Interest Rates | Maturity Through | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---------------|----------------|---------------------|----------------------|------------------|------------------|-------------------|
| General obligation bonds payable from tax revenue | | | | | | | |
| Safe road bonds | 1998 | 4.30% - 5.25% | 06/01/2023 | \$ 36,025 | \$ - | \$ 36,025 | \$ - |
| Safe road bonds | 2001 | 3.50% - 5.50% | 06/01/2013 | 25,595 | - | 11,705 | 13,890 |
| Safe road bonds | 2005 | 3.00% - 5.00% | 06/01/2025 | 277,895 | - | 21,460 | 256,435 |
| Safe road bonds | 2010 | 4.00% | 06/01/2023 | - | 35,135 | - | 35,135 |
| Total general obligation bonds | | | | <u>339,515</u> | <u>35,135</u> | <u>69,190</u> | <u>305,460</u> |
| Bond premium | | | | <u>22,551</u> | <u>2,913</u> | <u>1,794</u> | <u>23,670</u> |
| Total general obligation bonds payable net of premium | | | | <u>362,066</u> | <u>38,048</u> | <u>70,984</u> | <u>329,130</u> |
| Revenue notes payable from federal aid revenue: | | | | | | | |
| Surface transportation improvements special notes (Garvee 2006A) | 2006 | 3.75% - 5.00% | 06/01/2016 | 53,935 | - | 8,020 | 45,915 |
| Surface transportation improvements special notes (Garvee 2007A) | 2007 | 4.00% - 5.00% | 06/01/2016 | 23,385 | - | 3,485 | 19,900 |
| Surface transportation improvements special notes (Garvee 2009A) | 2009 | 3.75% - 5.00% | 06/01/2016 | <u>66,995</u> | <u>-</u> | <u>10,015</u> | <u>56,980</u> |
| Total revenue notes payable | | | | <u>144,315</u> | <u>-</u> | <u>21,520</u> | <u>122,795</u> |
| Bond premium | | | | <u>6,116</u> | <u>-</u> | <u>1,019</u> | <u>5,097</u> |
| Total general obligation notes payable net of premium | | | | <u>150,431</u> | <u>-</u> | <u>22,539</u> | <u>127,892</u> |
| Claims and judgments | | | | 18,485 | 1,076 | 5,580 | 13,981 |
| Compensated absences | | | | <u>28,150</u> | <u>1,242</u> | <u>80</u> | <u>29,312</u> |
| Total long-term obligations | | | | <u>\$ 559,132</u> | <u>\$ 40,366</u> | <u>\$ 99,183</u> | <u>\$ 500,315</u> |

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments requires that debt service on the bonds be paid from the State Road Fund and, to the extent that there are insufficient funds therein, from a levy of an annual state tax. All bonds authorized under prior constitutional amendments have been issued and include amounts outstanding above.

Surface Transportation Improvement Special Obligation Notes are authorized under Chapter 17, Article 17A of the Code of West Virginia, 1931, as amended. The Code provides for the issuance of special obligation notes to facilitate the construction of highways, secondary roads and bridges to be funded wholly or in part by federal dollars and in anticipation of reimbursement from such sources. The federal legislation that enables reimbursement of such costs is included in Title 23, Section 122. The Memorandum of Agreement executed between the Federal Highway Administration and the Division of Highways documents the procedures for managing the stewardship and oversight of highway projects that are financed with the proceeds of these notes.

Debt service expenditures included interest of \$22,393 for the year ended June 30, 2011. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and revenue notes payable liquidated through debt service funds, are as follows:

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017- 2021 | 2022- 2025 | Total |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| General obligation bonds payable from tax revenue: | | | | | | | | |
| Safe road bonds | \$ 49,780 | \$ 38,403 | \$ 36,757 | \$ 36,765 | \$ 36,765 | \$116,202 | \$ 93,437 | \$ 408,109 |
| Less: interest | <u>14,915</u> | <u>13,173</u> | <u>11,917</u> | <u>10,675</u> | <u>9,370</u> | <u>32,177</u> | <u>10,422</u> | <u>102,649</u> |
| Total principal | 34,865 | 25,230 | 24,840 | 26,090 | 27,395 | 84,025 | 83,015 | 305,460 |
| Bond premium | <u>1,768</u> | <u>1,726</u> | <u>1,721</u> | <u>1,721</u> | <u>1,721</u> | <u>8,604</u> | <u>6,409</u> | <u>23,670</u> |
| Total principal and bond premium | <u>\$ 36,633</u> | <u>\$ 26,956</u> | <u>\$ 26,561</u> | <u>\$ 27,811</u> | <u>\$ 29,116</u> | <u>\$ 92,629</u> | <u>\$ 89,424</u> | <u>\$ 329,130</u> |
| Revenue notes payable from federal aid revenue: | | | | | | | | |
| Surface transportation special obligation notes | \$ 27,588 | \$ 27,547 | \$ 27,519 | \$ 27,504 | \$ 27,499 | \$ - | \$ - | \$ 137,657 |
| Less: interest | <u>5,163</u> | <u>4,177</u> | <u>3,044</u> | <u>1,854</u> | <u>624</u> | <u>-</u> | <u>-</u> | <u>14,862</u> |
| Total principal | 22,425 | 23,370 | 24,475 | 25,650 | 26,875 | - | - | 122,795 |
| Note premium | <u>1,019</u> | <u>1,019</u> | <u>1,019</u> | <u>1,020</u> | <u>1,020</u> | <u>-</u> | <u>-</u> | <u>5,097</u> |
| Total principal and note premium | <u>\$ 23,444</u> | <u>\$ 24,389</u> | <u>\$ 25,494</u> | <u>\$ 26,670</u> | <u>\$ 27,895</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 127,892</u> |

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

During the year ended June 30, 1997, the State was authorized by constitutional amendment to issue \$550,000 of general obligation bonds to fund highway and road construction projects known as Safe Road Bonds. These bonds will be repaid from revenues of the State Road Fund. Safe Road Bonds of \$220,000 were issued during July 1998; \$110,000 were issued during July 1999; \$110,000 were issued during July 2000; and an additional \$110,000 were issued during July 2001.

In 2005, the State refinanced part of the above mentioned bonds in the amount of \$321,405. These bonds will be repaid from revenues of the State Road Fund through the year 2025. The refinancing was to advance-refund \$319,860 of outstanding 1998, 1999 and 2000 Series bonds. The net proceeds of \$351,405 (after payment of \$1,606 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government State and Local Government Series securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refinanced portions of the 1998, 1999, and 2000 Series bonds. The defeased bonds were called on June 1, 2010 and are no longer outstanding.

During the year ended June 30, 2007, the State was authorized by constitutional amendment to issue \$200,000 of Surface Transportation Improvements Special Obligation Notes (Garvee Notes) to fund highway and road construction projects. These notes will be repaid from future federal highway revenues. Garvee Notes of \$76,000 were issued during October 2006 and \$33,000 were issued during April 2007. The Division sold \$76,835 of additional Garvee notes during the fiscal year ending June 30, 2009.

The Division issued on behalf of the State of West Virginia, \$35,135 in General Obligation State Road Refunding Bonds, Series 2010A on July 22, 2010, resulting in proceeds of \$38,048. This bond issue refunds Series 1998 and Series 2001 General Obligation State Road Bonds with cumulative outstanding principal of \$37,730, and will result in a net present value savings of \$4,265 over the life of the bond issue. The bonds that were refunded were called on June 1, 2011 and are no longer outstanding.

Long term obligations for compensated absences, claims payable, and general obligation bonds are as follows:

| | <u>Compensated Absences</u> | <u>Claims and Judgments</u> | <u>Obligation Bonds and Revenue Notes and Premium</u> | <u>Total</u> |
|-----------------------|---------------------------------|---------------------------------|---|-------------------|
| Current liabilities | \$ 11,946 | \$ 2,391 | \$ 60,077 | \$ 74,414 |
| Long-term liabilities | <u>17,366</u> | <u>11,590</u> | <u>396,945</u> | <u>425,901</u> |
| | <u>\$ 29,312</u> | <u>\$ 13,981</u> | <u>\$ 457,022</u> | <u>\$ 500,315</u> |

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

The following summarizes the estimated claims liability for the current year and that of the preceding two years.

| | <u>Year Ended</u> <u>June 30, 2011</u> | <u>Year Ended</u> <u>June 30, 2010</u> | <u>Year Ended</u> <u>June 30, 2009</u> |
|--|---|---|---|
| Estimated claims liability, July 1 | \$ 18,485 | \$ 7,809 | \$ 12,729 |
| Additions for claims incurred during the year | 2,391 | 1,564 | 509 |
| Changes in estimates for claims of prior periods | (5,331) | 9,621 | (4,715) |
| Payments on claims | <u>(1,564)</u> | <u>(509)</u> | <u>(714)</u> |
| Estimated claims liability, June 30 | <u>\$ 13,981</u> | <u>\$ 18,485</u> | <u>\$ 7,809</u> |

At June 30, 2011, approximately \$8,450 of tort claims, \$2,100 in environmental claims, and \$1,040 of construction claims, including non-incremental claims, were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$13,981 recorded in the government-wide Statement of Net Assets, based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Such claims will be recognized primarily as expenditures of the State Road Fund if, and when, they are approved for payment by the Legislature in accordance with legal statutes. Also included in claims are claims that have been settled in the court of claims and approved for payment through legislative action. These amounts total approximately \$2,391. During the normal course of operations, the Division may become subject to other litigation. No provision has been made in the financial statements for liabilities, if any, from such litigation.

The Division's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated. Upon retirement, an employee may apply unused sick leave to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or apply unused sick leave or annual leave or both to obtain a greater benefit under the West Virginia Public Employees Retirement System.

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NOTE 10: RELATED PARTY TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

The Division enters into certain transactions with various agencies of the State of West Virginia. The following summarizes the nature and terms of the most significant transactions:

- The Division leases from the Department of Administration substantially all of State Office Building No. 5 and a portion of State Office Building No. 3 which are owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under these operating leases, which expire June 30, 2012 for rental payments of approximately \$2.0 million annually. Management expects the leases to be renewed upon expiration.
- The Division's employees participate in various benefit plans offered by the State of West Virginia. Employer contributions to these plans are mandatory. During the year ended June 30, 2011 the Division incurred payroll related expenditures of approximately \$27,290 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$22,213 in employer matching contributions to the State Public Retirement System.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$644,492 at June 30, 2011.

The Division participates in several federal programs which are subject to audit by the federal awarding agency. Any disallowed claims, including amounts already collected by the Division, may constitute a liability to the federal awarding agency of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal awarding agency cannot be determined at this time. The Division expects such amounts, if any, to be immaterial to the financial position of the Division. The Division records these disallowed costs in the period the audit is finalized.

Based on the Division's Inspection Program the Division has reviewed the information on obsolete and deficient bridges. The Division is concerned about safety and tries to prioritize bridges for repair and replacement based on engineering assessments. The Division's long range plans to address this issue will be impacted by actions that may be taken by both the federal and state government, including funding levels provided for this purpose.

Various legal proceedings and claims related to condemnation and eminent domain cases are pending against the Division. At June 30, 2011, there were approximately 415 open cases. These cases involve the acquisitions of properties by the Division for right of way purposes. The Division has paid the applicable courts on behalf of the land grantors, estimated fair values of the properties acquired. The open cases may result in condemnation commissioners or jury verdicts awarding amounts in excess of the previously paid estimated fair value amounts. In these situations, the excess award amount plus a statutory interest rate of 10% would be paid to the grantor. The interest amount would be calculated on the excess award amount from the date of the petition filing to the date of the excess payment amount to the court. Several of these cases relate to condemnations from the 1960s and 1970s. There is no estimate available as to the amount of monies needed to resolve these cases. Management is of the opinion that any liability resulting from these claims would have no adverse effect on the financial position of the Division.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTES TO THE FINANCIAL STATEMENTS
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(amounts expressed in thousands)

NOTE 12: RETIREMENT PLAN

PLAN DESCRIPTION - The Division contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304-1636 or by calling (304) 558-3570.

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 17% of annual covered payroll, including the Division's contribution of 12.5% which is established by PERS. Effective July 1, 2011 the Division's contribution was increased to 14.5%. The Division's contributions to PERS for the years ended June 30, 2011, 2010, and 2009 were \$22,213, \$18,040, and \$18,154, respectively, equal to the required contributions for each year.

NOTE 13: OTHER-POST EMPLOYMENT BENEFITS

The Division participates in the West Virginia Other Postemployment Benefit Plan (OPEB) of the West Virginia Retiree Health Benefit Trust Fund (RHBTF), a cost sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan, established in accordance with GASB Statement No. 45, provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit plans to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to West Virginia Public Employees Insurance Agency, 601 57th Street, Charleston, WV 25304 or by calling 1-888-680-7342.

The Code requires the RHBTF to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The OPEB Plan costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. The ARC rate is nine hundred three dollars per employee per month for the year ending June 30, 2011. The Division's ARC was \$39,946, \$30,555 and \$19,296 and the Division has paid premiums of \$8,230, \$7,516 and \$ 10,267, which represent 20.6%, 24.6% and 53.2% of the ARC, respectively, for the years ending June 30, 2011, 2010, and 2009. At June 30, 2011, the liability related to OPEB costs was \$84,601.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 14: RISK MANAGEMENT

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM) and the Public Employees Insurance Agency (PEIA), to account for and finance uninsured risks of losses for state agencies, institutions of higher education, and component units.

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. The Division retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. Other than the amounts disclosed in Note 9, amounts of settlements have not exceeded insurance coverage in the past three years. The Division has evaluated this potential risk of loss as discussed in Note 9. BrickStreet Insurance, a private mutual insurance company, provided coverage for work related accidents.

Through its participation in the PEIA, the Division has obtained health coverage for its employees. In exchange for payment of premiums to PEIA, the Division has transferred its risks related to health coverage. PEIA issues publicly available financial reports that include financial statements and required supplementary information, these reports may be obtained by writing to PEIA.

The Division also carries workers compensation insurance coverage through a commercial insurance carrier. The commercial insurance carrier is paid a monthly rated premium to provide compensation for injuries sustained in the course of employment.

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**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

November 10, 2011

Joint Committee on Government and Finance
West Virginia Legislature

To the Members of the Joint Committee:

We have audited the financial statements of the governmental activities and each major fund of the **West Virginia Department of Transportation, Division of Highways** (the Division), a component unit of the State of West Virginia and the West Virginia Department of Transportation, as of and for the year ended June 30, 2011, which collectively comprise the Division's financial statements and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Division's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Division's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of audit findings and responses that we consider significant deficiencies in internal control over financial reporting. We consider findings 2011-001 and 2011-002 to be significant deficiencies. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of reasonably assuring whether the Division's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Division's management in a separate letter dated November 10, 2011.

The Division's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and responses. We did not audit the Division's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management of the Division, the Joint Committee on Government and Finance of the West Virginia Legislature and others within the Division. We intend it for no one other than these specified parties.

Respectfully submitted,



Perry and Associates
Certified Public Accountants, A.C.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2011

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2011-001

Significant Deficiency

Recognition of Taxes Receivable for Leased Vehicles

Criteria:

GASB 34 indicates the timing of recognition for each class of transactions. The privilege tax on leased vehicles is a derived tax revenue. The timing of revenue recognition is indicated below. (The accrual basis of accounting is assumed, except where indicated for revenue recognition.)

• *Derived tax revenues*

— *Assets*— when the underlying exchange transaction occurs or resources are received, whichever is first.

— *Revenues*—when the underlying exchange transaction occurs. (On the modified accrual basis of accounting, revenues should be recognized when the underlying exchange has occurred and the resources are available.) Resources received before the underlying exchange has occurred should be reported as deferred revenues (liabilities).

For the privilege tax on leased vehicles, WV Code indicates the underlying transaction is the monthly lease payment and the tax is collected based on the amount of the monthly payment. The tax is due to the state by the end of the month following the payment. The maximum amount that should be recorded as receivable would be the amount collected in July of the next fiscal year.

Condition:

The Division recorded a receivable based on the average number of months remaining on the vehicle leases (as determined by a sampling of leases from one dealer) times the average monthly revenue collected in the fiscal year. This calculation determined a receivable of \$8,676,656. Since the underlying transaction is the lease payment, using the average number of months remaining on leases is not a proper revenue recognition method and the receivable will be overstated.

Cause:

The Division has no process in place to review accruals periodically to ensure they are in accordance with GAAP. By not reviewing accrual methods there is a possibility of a material misstatement of the financial statements.

Context:

The average monthly revenue for fiscal year 2011 was \$395,833. Using the average monthly revenue is a reasonable method of determining the receivable. The accrual should have been \$395,833. The effect of the incorrect recognition was an overstatement of receivables and revenues in the general fund for \$8,280,823. An adjustment has been made to the fund and entity-wide statements.

Effect:

Without a periodic accrual review, misstatements of the financial statements can occur, and have occurred, and gone undetected by the Division's personnel in the normal course of performing their assigned functions.

Recommendation:

We recommend when revenue recognition policies change, related accruals should be reviewed and updated to ensure revenue is properly recognized in the financial statements. Management or someone else with a strong background in revenue recognition and GAAP could do this review.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2011
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2011-001 (Continued)

Significant Deficiency

Recognition of Taxes Receivable for Leased Vehicles (Continued)

Management's Response – The Division of Motor Vehicles agrees that all accruals should be reviewed and updated to ensure revenue is properly recognized in the financial statements. The Division will establish the policy and procedures to review all accruals on a periodic basis to ensure their continued compliance with GAAP.

FINDING NUMBER 2011-002

Significant Deficiency

Financial Reporting of Capital Assets

Criteria:

Expenditures for infrastructure assets are required by accounting principles generally accepted in the United States of America to be capitalized in the Government-wide Financial Statements and depreciated over their estimated useful lives.

Condition:

The Division's process for identifying expenditures for infrastructure assets that meets its established capitalization threshold is dependent on the project completion date as reported in the project management system. We noted the Division does not have effective controls established to ensure the project completion date entered into the project management system is accurate.

Cause:

The Division has not established effective procedures to ensure that the project completion date used to evaluate and determine the capitalization of expenditures is accurate.

Effect:

Without proper monitoring, errors in the reported balances for capital assets and expenses in the Division's Government-wide Financial Statements could occur without being detected by management.

Recommendation:

We recommend that management establish procedures to ensure that the project completion date in the project management system is accurate. Establishing the procedures will help to ensure that capitalized expenditures and related depreciation expenses are complete and accurate. The Division should consider changes in supervisory review procedures to ensure that infrastructure items are appropriately identified and capitalized in a timely manner.

Management's Response – The Division of Transportation Finance and Administration staff will review this issue with the engineering staff responsible for the project management system. A procedure to accurise the project completion date will be established.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|---|
| 2010-001 | Financial reporting of capital assets | No | Repeat as finding 2011-002 |
| 2010-002 | Information technology system controls | Yes | |
| 2010-003 | Non-federal aid receivable reconciliation | Yes | |

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MANAGEMENT LETTER

November 10, 2011

Joint Committee on Government and Finance
West Virginia Legislature

To the Members of the Joint Committee:

In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the financial statements of the **West Virginia Department of Transportation, Division of Highways** (the Division), a component unit of the State of West Virginia and the West Virginia Department of Transportation, as of and for the year ended June 30, 2011, and have issued our reports thereon dated November 10, 2011.

Government Auditing Standards also requires that we describe the scope of our testing of compliance with laws and regulations and internal control over financial reporting and report any irregularities, illegal acts, other material noncompliance and significant deficiencies in internal controls. We have issued the required reports dated November 10, 2011, for the year ended June 30, 2011.

We are also submitting for your consideration the following comments on the Division's compliance with applicable laws and regulations and on its internal controls. These comments reflect matters that, while in our opinion do not represent material instances of noncompliance or significant deficiencies in internal controls, we believe represent matters for which improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the recommendations suggested below. However, these comments reflect our continuing desire to assist your government. If you have any questions or concerns regarding these comments, please do not hesitate to contact us.

NONCOMPLIANCE FINDING

WV Code §17-3A-1 provides that at the end of each fiscal year, all unused moneys in the Industrial Access Road fund revert to the state road fund.

The Division does not transfer the remaining balance in the Industrial Access Road fund back to the State Road fund at the end of each fiscal year. The balance in the fund has been increasing for the past several years.

The Division considers the term "unused moneys" to exclude any projects that the division has "programmed" for constructing and maintaining industrial access roads. We noted that the end of fiscal year 2011 the amount of programmed activities was \$4,667,000 and the amount remaining on active authorizations for ongoing projects was \$6,420,026. The fund balance in the Industrial Access Road fund was \$8,822,611.

We recommend the Division obtain a legal opinion as to whether they are allowed to consider programmed projects when determining "unused moneys" at year end. If necessary, the situation should be discussed with the legislative liaison to determine if legislation should be amended to address programmed projects.

RECOMMENDATIONS

Financial Statement Presentation

We noted several instances of incorrect presentation on the financial statements presented for audit. The presentation on the fund statements for the new bonds issued and proceeds of sales of assets were not correct. On the entity wide statements the gain on sale of assets and long term liabilities were not properly presented.

We recommend the District financial statement preparers review the statements for proper presentation. We also recommend a review of the presentation be done by the state finance and accounting division prior to preparation for fiscal year 2012.

Recording of New Debt Issues

In July, 2010 the Division issued \$35,135,000 in refunding bonds. The bond revenue and refunded bond payments were not properly reflected on the financial statements. In addition, all bond issue costs were not properly calculated and reflected in the financial statements. For presentation purposes, the proceeds of the bond refunding should be separated into sale of refunding bonds (the par value of the bonds) and premium on refunding bonds. Bond issue costs and accounting loss should be included in debt service payments and only the amount used to pay off the refunded bonds should be included in payments to refunded bond escrow agent.

In addition, the Division only included the underwriter's discount in the capitalized issue costs. The state paid additional issue costs directly and these fees should also have been included in the capitalized issue costs.

We recommend new issue entries be reviewed by the State Treasurer's Office and or Financial Accounting and Reporting (FARS) to make sure the proper amounts are recorded and the presentation on the financial statements is proper.

These comments are intended for the information and use of management of the Division, the Joint Committee on Government and Finance of the West Virginia Legislature and others within the Division, and are not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.